

**INFLUENCE OF GOVERNMENT POLICY
AND
ANALYSIS OF LEATHER INDUSTRY : A CASE OF KANPUR**

**A Thesis Submitted
In Partial Fulfillment of the Requirements
for the Degree of
MASTER OF TECHNOLOGY**

by

P.K.DIXIT

to the
**DEPARTMENT OF INDUSTRIAL AND MANAGEMENT ENGINEERING
INDIAN INSTITUTE OF TECHNOLOGY, KANPUR
MAY, 1995.**

20 MAY 1996

~~Doc. No. A.~~ 121562

.....

.....
A121562

IME-1995-M-DIX-INF

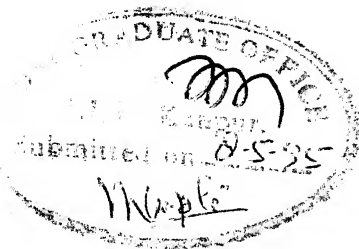
CERTIFICATE

It is to certify that the work contained in the thesis entitled "**Influence of Government Policy and Analysis of ^aLeather Industry : A Case of Kanpur**" by Mr. P. K. Dixit (Roll No. 9311416) has been carried out under my supervision and that this work has not been submitted elsewhere for a degree.


(Rahul Varman)

Assistant Professor
Industrial and Management Engineering Department
Indian Institute of Technology
Kanpur - 208 016

May, 1995



ABSTRACT

The objectives of the thesis are to study the current status and structure of the leather industry in Kanpur and the impact of recent government policies on it. The industry is one of the most significant foreign exchange earners for the country. Because of heavy pollution hazards and high labour costs, leather industry is shifting out of the developed countries. This offers a major opportunity for a country like India.

In last four years, there have been major changes in the government policies as the part of economic reform process. These changes have put all the industries, in India, in a totally different environment. The government policies have always been an influencing environmental factor, in case of this industry. Therefore, this study also tries to find out the effect of these changes on the industry.

Leather 'a true wealth from waste' has been a traditional industry of Kanpur with a glorious past. The industry in Kanpur, however, has lost its past status when compared with leather industry at other major centres in India. The industry in Kanpur has been left far behind. Still, Kanpur continues to be one of the key centres of leather production in the country.

Only tanning and footwear sector (the most significant in industry) were taken for study purpose. The data to analyse the industry structure and to study the impact of government policies, was taken by conducting interviews. A large number of units and institutions were contacted in Kanpur for this purpose. The collected data was analysed for said purpose using Porter's (1980) framework of Industry Analysis.

The results of analysis show the fragmented nature of tanning and footwear industry with a large number of units at small scale. This is mainly due to licensing policy, which reserves these two segments for small scale. The pollution control policy has made the greatest impact on tanneries by raising the entry barriers for the industry significantly. In case of other policies like import export policy and foreign investment policy, these are found to be favouring the exporting nature of the industry. The tanneries and importers of leather footwear enjoy the maximum bargaining power among all players in the industry. The study shows that due to forward integration by most of the tanneries, the exports of finished leather is declining. The shortage of raw material, that is, raw hides for tanneries and finished leather for footwear manufacturers, is seen as the biggest problem for the industry.

ACKNOWLEDGEMENT

I would like to express sincere thanks to my thesis supervisor **Dr. Rahul Vermam**. The fruitful discussions that I had with him, helped me in completing the thesis work successfully. I thank him for all his help and encouragement, making this exercise a great learning experience.

Many individuals and organisations have contributed to the successful completion of this work. I had the privilege of visiting various organisations:- Council for Leather Exports, Ganga Action Plan, Central Pollution Control Board, Central Leather Research Institute, Directorate of Industries, Unnao Tanneries Pollution Control Company, many tanneries and footwear manufacturing units, for collecting data required for analysis in my thesis. I am indebted to these organisations for providing valuable information about the industry.

I sincerely thank **Sri B.K. Pandey** (Government Leather Institute) for guiding me during the initial stages of my thesis. I would also like to thank **Manoj Tiwari** (II year student, Govt. Leather Institute) who helped me in various ways for this work.

I gratefully acknowledge **Sri Sudhir Chandra**, Development Officer (Leather), **Sri Ved Prakash Bajpai** (Directorate of Industries), **Sri S.K. Mishra** (H.B.T.I.) for their generous and sustained support throughout this work.

The assistance provided by **Sri J.K. Mishra** and **Sri S.S. Rana** (DOSA Office) in giving final shape to this thesis, deserves special commendation.

Finally, I thank all IME family members for their help and encouragement provided to me during my Master's Program. The sympathy and cooperation which I always receive from my family need no emphasis.

TABLE OF CONTENTS

TOPIC	PAGE
Abstract	iii
Acknowledgement	iv
List of Tables	viii
 CHAPTER 1 : INTRODUCTION	 1
1.1. Introduction	1
1.2 Research Objectives	4
1.3 Plan of Thesis	4
 CHAPTER 2 : LEATHER INDUSTRY : AN INTRODUCTION	 6
2.1 Indian Leather Industry	6
2.1.1 Finished and Semi- Finished Leather Making	6
2.1.2 Footwear Industry	13
2.2 World Leather Industry	16
2.2.1 Future Trends	20
 CHAPTER 3 : FRAMEWORK OF THE STUDY	 27
3.1 Government Policies as Environmental Factor	28
3.2 Forces Governing the Industry	31
3.2.1 Threat of Entry	31
3.2.2 Intensity of Rivalry Among Existing Competitors	34
3.2.3 Bargaining Power of Buyers	37
3.2.4 Bargaining Power of Suppliers	38
3.2.5 Government as a Force in Industry Competition	40

CHAPTER 4 :	DESIGN OF STUDY	41
4.1	Introduction	41
4.2	Objective	41
4.3	Scope	41
4.4	Framework of Study	41
4.4.1	Identification of Critical Factors	42
4.4.2	Generation of Research Questions	42
4.5	Research Method	43
4.6	Preparation of Questions for Interview	43
4.7	Selection of Firms for Visit	45
4.8	Data Collection	47
4.9	Analysis and Conclusion	48
 CHAPTER 5 :	 LEATHER INDUSTRY IN KANPUR	 49
5.1	History	49
5.2	Raw Hide Collection	52
5.2.1	Raw Hide Market in Kanpur	53
5.3	Leather Tanning	55
5.3.1	Industry Structure	56
5.3.2	Technology	56
5.3.3	Human Resources	57
5.3.4	Marketing	57
5.3.5	Raw Material	58
5.4	Footwear and Footwear Component	58
5.4.1	Industrial Structure	58
5.4.2	Technology	59
5.4.3	Raw Material	59
5.4.4	Supporting Industries	60
5.4.5	Marketing	60
 CHAPTER 6 :	 RESULTS AND ANALYSIS	 63
6.1	Sample and Respondent Profile	63
6.2	Manpower Composition	65

6.3	Reasons for Entry	66
6.4	Marketing	67
6.5	Financial	67
6.6	Analysis of Tanning Industry	67
6.6.1	Barriers to Entry	68
6.6.2	Bargaining Power of Buyers	72
6.6.3	Bargaining Power of Suppliers	73
6.6.4	Intensity of Rivalry	75
6.7	Analysis of Footwear Industry	76
6.7.1	Barriers to Entry	76
6.7.2	Bargaining Power of Buyers	80
6.7.3	Competition and Intensity of Rivalry	82
6.8	Growth Constraints	83
6.9	Future Plans	85
6.10	Other Issues Relating to Government Policies	85
6.10.1	Raw Material	85
6.10.2	Supporting Industries	87
6.10.3	Joint Ventures and Foreign Investments	89
6.11	Pollution Control Policy	91
CHAPTER 7 :	CONCLUSION	97
7.1	Findings	97
7.2	Tentative Suggestions	99
7.3	Limitations of the Study	100
APPENDIX		102
REFERENCES		124

CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

The Indian Leather Industry enjoys the status of being the fourth largest foreign exchange earner for the country. India, though commands roughly 12% of the global availability of raw materials (raw hides and skins), its export earning in 93-94 on account of leather and leather products was only 3.5% of the total value of world trade of the leather and leather products. The growth achieved by Indian leather industry for the last two decades, though impressive, is still short of its potential.

The value of world leather and leather product trade has increased from a mere US \$ 4 billion in 1972 to an impressive figure of more than US \$ 40 billion in 1991. The developing countries with low wage level are major suppliers of leather and leather products to the world market as the leather industry in developed countries like USA, Germany etc., due to high wage levels and strict pollution control norms, has contracted to an insignificant level. These countries have instead become major importers of leather products. This opportunity in late seventies and eighties was grabbed by countries like South Korea, Italy, Taiwan, China, Turkey and Brazil. The share of these countries range between 7% to 20% of the world market, in comparison to India's only 3.5%. Today, South Korea, Italy and Taiwan are fast becoming uncompetitive due to high wage bills, vacating a large chunk of the global market and countries like China,

Indonesia, Thailand, Pakistan etc. have emerged as main competitors in the industry. The above mentioned facts raise certain very interesting questions about indian leather industry. The most prominent among them is to know why the Indian leather industry has not grown to its potential in comparison to its competitors.

The role played by the government through its various policies, can be seen as a critical factor for the growth of this industry. The reservation of tanning and leather product manufacturing for small scale sector, encouraging 100 percent export oriented units (EOUs) and units at export processing zones (EPZs), ban on export of raw hides and semi-finished leather are some of the examples. Government through its various programmes (UNDP assisted National Leather Development Programme, Leather Technology Mission, etc.) and institutions (Central Leather Research Institute, Council for Leather Export etc.) has tried to help the industry. As a result, over the past few years India has witnessed growth of various leather product manufacturing units in the country catering almost exclusively to export.

The leather industry in India has developed primarily in three states - Tamil Nadu, W. Bengal and Uttar Pradesh. The leather industry in Kanpur though not number one in India has a special status as the only centre producing all types of leather products including finished leather. There are around 200 tanneries with installed capacity of about 55,000 leather pieces per day (which is 10 percent of the total tanning capacity in India) and a large number of small and large units involved in making of leather products.

The exports from leather industry in Kanpur includes all types of leather products and finished leather which is about 10 percent of the total exports from India. Kanpur is the only exporter of saddlery and harness in India, with exports touching Rs. 62 crores in 1993-94. The tanneries in Kanpur specialise particularly in processing of buffalo and cow hides for sole leather (for footwear) and heavy leather, used for saddlery and harness making.

The proximity to big raw hide markets is a great advantage to leather industry of Kanpur. Hapur (the largest weekly market in India and Chauri Chaura (Gorakhpur) are the major markets in Uttar Pradesh, located near Kanpur. Kanpur itself has a very large raw hide market with annual turnover of about Rs. 250 crores.

The leather industry in Kanpur, blessed with traditional skilled manpower, educational institutions etc., has not grown with the same pace as as other places like Madras, Ambur, etc.

The present study is focused on studying the impact of various government policies, including pollution control policy, on leather industry. Kanpur with its long tradition in leather works, producing all important types of leather items and serving both domestic as well as international market has been selected for this purpose. In 1987, as per Supreme Court decision, tanneries were forced to immediately implement the pollution control norms. Since, this decision has greatly affected the tanneries in Kanpur, it was decided to study the impact of pollution control policy in detail.

As the list of leather products is very long, (footwear and footwear components, leather garments, industrial gloves, saddlery

and harness, travel goods, etc.), each having significant share in the total production, the present study is focussed on two items - Finished leather (Tanning) and footwear. The footwear (including footwear component) is the most important item among the leather products enjoying more than 50% share of the total world leather trade and consumes about 62% of the total finished leather produced. Thus it has found its place in the study. The importance of tanning, being the mother of leather industry, can not be denied. This is the important reason for including it as the subject of the present study.

1.2 RESEARCH OBJECTIVES

The specific research objectives generated are

1. To examine the current status, and structure of the leather industry in Kanpur.
2. To study the impact of various government policies on the development of tanning and footwear industry in Kanpur
3. To study the Impact of the pollution control norms On the leather industry in Kanpur.

1.3 PLAN OF THE THESIS

The entire work has been put in seven chapters, with related information kept in Appendices at the end. Chapter 2 provides an introduction to leather industry and discusses various aspects of the industry at country level as well as at world level. Chapter 3 deals with frame work for analysis of the industry. Objective and scope of the industry, followed by the frame work of study including data collection and research method has been discussed in Chapter 4. Chapter 5 deals with leather industry in Kanpur, explains various aspects of the industry. This chapter has been

prepared mainly on the basis of information gathered from different sources. This chapter thus can be looked at, as a part of Chapter 6. Chapter 6 covers the final analysis based on information gathered through survey. Chapter 7, the last chapter, states conclusions as derived from the analysis of the industry at Kanpur.

CHAPTER 2

LEATHER INDUSTRY: AN INTRODUCTION

2.1 INDIAN LEATHER INDUSTRY

The Indian Leather Industry, a prime foreign exchange earner as well as a main contributor to socio-economic development, has been identified as a major thrust sector for exports. From the status of an exporter of raw hides and semi-finished leather in 50's, the Indian Leather Industry today has now established itself as a quality producer of leather and leather products in the world market. However, despite excellent raw material base and availability of abundant traditional skills of manufacturing, India has a humble share of 3.5% of the world market which was about US \$ 45 b in 1994.

The leather industry in India may broadly be divided into following sectors:

1. Finished and semi-finished leather sector (Tanning & Finishing Industry)
2. Footwear and footwear Components
3. Miscellaneous Leather Goods (garments bags, travel goods, industrial gloves, saddlery & harness, etc.)

The following pages describe first two sectors as these two are taken for the study [Chapter - 1].

2.1.1 Finished and Semi-Finished Leather Making

The Indian Leather processing industry can be categorised into three types:

- (i) Processing of raw hides/skins to semi-finished leather.
- (ii) Processing of semi-finished leather (i.e. wet blue leather) to finished leather.
- (iii) Processing of raw hides to finished leather. (Appendix B).

As per a survey conducted by Central Leather Research Institute, Madras in 1988, there were about 1083 tanneries in different parts of the country with total processing capacity of 62.05 million hides and 161.34 million skins.

Table 2.1

Distribution of Processing Capacity (in million pieces)

Item	Cottage	Small scale	Medium	Total
a) Hides	2	51	11	64
b) Skins	5	128	33	165

[Source: National Leather Development Programme Compilation, 1993.]

The tanning activity is primarily concentrated in three states, Tamil Nadu, West Bengal and Uttar Pradesh, accounting for about 88% of the total tanneries in India.

(a) Domestic Market

The demand for finished leather is mainly derived from leather goods manufacturers. With increase in demand for leather products in the world market, there has been new capacity additions in the field of leather products. This has increased the demand for finished leather significantly. Keeping the exports trend in leather products, the eighth 5 year plan working group has projected an overall deficit of finished leather equal to 2808 million sq. feet. by 2000 A.D.

Table 2.2

Statewise Distribution of Tanneries in India

State	Small scale units	Medium to large scale units
Tamil Nadu	526*	41*
West Bengal	227	6
Uttar Pradesh	140\$	7\$
Maharashtra	27	3
Andhra Pradesh	18	5
Karnataka	15	1
Others	45	12
Total	1008	75

* As per Tamil Nadu Pollution Control Board, Tamil Nadu had about 900 tanneries till 1993-94.

\$ No. of tanneries in Kanpur including Unnao are about 200 (Source Ganga Action Plan, Kanpur).

Source: CLRI Survey report 1988.

Table 2.3

Requirement, Availability and Deficit of Raw Materials, 2000 ad
(in million sq. feet)

S.No	Item	Requirement	Projected Availability	Deficit
1.	Hides	2706	992	1714
2.	Goat Skin	1139	630	509
3.	Sheep Skin	795	210	585
	TOTAL	4640	1832	2808

[Source : Eighth Five Year plan working group report]

(b) Export Market

For many years, India remained a major exporter of raw and semi tanned leather, which had a high demand but very little value realisation. In 1972, the export of raw hides was banned and

export of semi-finished leather was decided to be phased out in coming years.

Table 2.4

Percentage Share of Materials Exported out of Total Exports

Year	Raw and Semi-tanned	Finished Leather
1960	88	10
1970	82	2
1980	30	50
1990	-	30
1992	-	20
1993-94	-	19

Source: Council for Leather Exports.

The lowering trend in case of export of finished leather is due to increase in exports of leather products, and 5 percent duty on exports [Table 2.9]. This trend is in line with government's encouragement to export of value added products.

(c) Raw Materials

Raw hides and skins make the basic raw material to the industry. The analysis of the value of various inputs involved in the cost of production is as given below:

Table 2.5

Value of Various Inputs in Cost of Production of Finished Leather

Item	Share in Production Cost
Raw Hides/ Skins	55 - 60%
Chemicals	25 - 30%
Direct Overheads (including labour cost)	10 - 15%
Finished leather	100 %

[Source: Leather India 2010, 1994.]

The main sources of raw hides and skins are cooperative societies of village flayers and slaughter houses with certain types (in terms of quality) of raw material being imported. India is has a large live stock population. The following table shows India's share in the world production of hides and skins.

Table 2.6

Availability of Hides/Skins in India and World (in million pcs)

Item	India	World	Percent share
Cattle hides	21.7	-	-
Buffalo hides	15.7	275.4	13.6
Goat Skins	75.4	202.3	37.3
Sheep Skins	31.4	473.4	6.6

(Industrial Economist - Jan., 1992)

Due to poor livestock management and non-recovery of carcasses, 9 million hides and equal number of skins are wasted annually, causing a loss of not less than Rs. 600 crores every year [CLRI Survey Report, 1987]. The lack of trained manpower, use of primitive tools, poor transportation facilities at village level are the main drawbacks in raw hide collection and poor quality of these hides and skins.

Use of chemicals play a vital role in conversion of raw hide/skins into leather and for addition of aesthetic value to both leather and its various final products. The type of chemical inputs into the leather sectors can be categorised as bulk chemicals and special chemicals. Bulk chemicals (sulphuric acid, lime, sodium chloride, etc.) used in the leather sector are common also to other processing and manufacturing industries. These

chemicals are manufactured in large quantities in India. In case of some special chemicals, industry depends on imports. Overall, the availability of chemicals is not seen as a problem by the industry.

(d) Human Resources and Infrastructure

The tanning industry, is a multi-tiered, ranging from the Cottage, small to medium. A vast majority of existing man power at operational level is untrained and devoid of skills. There is, however, a small percentage of supervisory and engineering manpower. As per estimates, the employment, labour productivity levels are given below:

Table 2.7

Status of Employment and Productivity in Leather Industry

Item	Labour Productivity	No. of Persons
Tanning of Hides	550 hides per day per 210 persons	56,000
Tanning of Skins	5000 skins per day per 229 persons	16,946
Tanning & finishing of hides and skins upto various levels (including job works)	NA	7,245
Total:		80,191

[CLRI Compilation, 1991-92]

There are approximately 7,47,140 persons involved in flaying and carcass recovery, which clearly showing the labour intensive nature of industry.

The low wage levels is the biggest advantage that India has apart from being number one in livestock population in the world.

Table 2.8

Comparative Wage Levels/Day

Country	In US Dollars
USA/Germany	40 - 50
South Korea	10 - 15
Taiwan	10 - 15
India	2 - 3

[Source: Industrial Economist - January 1992.]

This advantage, however, is reduced by the fact that productivity of Indian worker is 2-3 times less than that of other countries.

The production per Indian worker per day comes out to be - 72 sq.ft.for raw hides and 118 sq. ft. for raw skin.

There are about 54 educational institutions, imparting short term and long terms courses in various segments of leather and leather products. The industry has witnessed a rapid growth in the last few years. The modern machine based system require high level of skills and knowledge to produce finished leather of international quality standards. This has created an acute shortage of trained manpower in the industry. The National Leather Development Programme (NLDP), assisted by UNDP aims at solving this problem [Appendix - A].

(e) Technology

The Indian tanning industry in technology is far behind in comparison to other countries. This is mainly due to the fact that it is dominated by small scale sector with very few modernised units. The units in general lack scientifically

designed layouts and have unhygienic conditions. The production planning and automation are highly inadequate. This has resulted in lower yields, higher consumption of chemicals, water and energy and thus very high level of effluent. However, with changed government policies, encouraging modernisation, through programmes like Leather Technology Mission [Appendix - A], things are improving fast.

(f) Profitability

The financial performance of the industry has been improving year by year. This is mainly due to tremendous growth of leather products industry. The exports of finished leather attracts a 5% duty (as per the budget 1995-96, this duty has been removed. However, it continues as contribution to leather industry development fund). The enforcement of strict pollution control laws have also increased the expenditure of tanneries. But, due to tremendous growth of leather products industry, the profitability of industry remains high.

(g) Future Growth

The downward export trend of finished leather is likely to continue, mainly because of the fact that most of the tanneries are integrating to leather products manufacturing [Table 2.1.1]. With leather product sector witnessing a growth rate of 15% and encouraging government policies for modernisation of existing units, the tanning has a very bright future.

2.1.2 FOOTWEAR INDUSTRY

The footwear industry can be subdivided into two segments. One is the substantial sector of small concerns which is essentially a cottage industry, producing shoes by hand serving

the domestic market (estimates by CLRI put this sector as having 160000 units and an annual production capacity of around 300 million pairs). The second segment, the organised sector comprising mechanised units includes big manufactures, mainly catering to export markets.

The importers of finished leather from India in 80's started switching over to imports of shoe uppers due to increase in production cost in their countries. This helped traditional leather exporters to start manufacturing of shoe uppers. The tanners particularly from Tamil Nadu were quick to grab the opportunity with the help of better marketing arrangements and access to modern technology. At present, the shoe manufacturing units are mainly located at Madras, Ambur, Vaniyambadi, Ranipet, Delhi, Agra, Calcutta, Jalundhar and Kanpur. [Table 2.12].

(a) Domestic Market

The Indian domestic market for leather footwear is extremely price sensitive. The demand for shoes is the highest in the price range of Rs. 250 to Rs. 500. There is, however, a small market segment, mainly in metropolitans, which is prepared to accept prices at over Rs. 800 per pair.

The per capita consumption of all footwear, leather and non leather which was estimated as 0.83 pairs in 1991-92 is expected to increase to 1.12 pairs in 94-95, of which the share of leather footwear would be 0.5 pairs. The per capita consumption of leather footwear is expected to grow to 0.6 pairs by 2000. [Murthy Committee Report, 1992].

The domestic demand [Table 2.10] is mainly met by unorganised sector. However big giants like Bata, Liberty, Action, Carona etc.

also have their share in the market (Appendix H).

(b) Export Market

The data [Table 2.9] provides a historical perspective on the growth of footwear and footwear components since 1972-73. While the 20 year period 1972-73 to 1992-93 yielded a 17 fold increase in export value (in Rupee value terms) of total leather industry, exports of footwear and footwear components increased nearly by 120 times, in the same period. During 1979-84, there were nearly 100 shoe upper manufacturers sprang up in the traditional leather tanning area in India, mainly supplying shoe uppers to the buyers of well known brands like Bally, Gaber, Clarks, etc. Even today, India exports shoes and shoe uppers without any brand name, thus still working as jobbers to foreign brands. Though the footwear exports has come a long way but still its growth is no where in comparison to its competitors like Italy, South Korea, Taiwan, China, Brazil, etc. The export trends in the first 8 months of the current financial year (1994-95) indicates good performance of full shoes exports with a growth rate of 30% while the footwear component sector has registered a decline. A number of new units with 100% export obligations have come up in the last few years. It includes big business houses like Tata, WIPRO, Pond's, MRF, MESCO etc. Joint ventures with World market leaders like Reebok and Adidas have recently been finalised in this sector.

(c) Raw Material

Finished leather is the main ingredient to this sector. As per UNCTAD study, this sector alone consumes more than 2/3 rd of the World's supply of finished leather.

With India exporting large quantity of finished leather, the footwear manufacturers face shortage of finished leather. The duty free imports of finished leather aims at solving this problem. The nonavailability of various components of desired quality used for shoe making within the country is another bottleneck, forcing to import these items.

(d) Future Growth

The footwear sector has been identified as major thrust area within the leather industry. India with low labour cost is able to produce shoes at very competitive price. The quality and delays in delivery have been the main drawback of the indian footwear industry. The council for leather exports (a government body) along with a number of exporters are working seriously to enhance the image of Indian leather products. The Leather Blitz programme aiming to build image of Indian footwear (and other products) in US has been a great success. With competitive prices and good quality footwear, India is trying to capture 5% of the world footwear market by 2000 AD which is likely to grow to 4670 million pair of shoes. The following table shows the overall growth potential of footwear and footwear component.

2.2 WORLD LEATHER INDUSTRY

The world leather industry has grown tremendously over the last two decades. The market which was worth US \$ 4b in 1972, stood at US \$ 45 b in 1994. Footwear continues to occupy prime place in global import profile with footwear and footwear components accounting for about US \$ 23.5 b in 1994. Italy claims the top slot as the biggest supplier of all leather products with 18.23% share of the total market. South Korea with 18.19% and

China with 16.84% claim the second and third spot respectively. The global market for footwear and components is also dominated by these three countries, who meet 51% of the global demand. Other important players in world footwear market are Taiwan, Brazil, Spain, Portugal and to a limited extent, India. Almost, one third, of all footwear produced in the world is now estimated to come from China. A huge proportion of this production is consumed within China, but, still almost 1000 million pairs annually are flooding on to the world markets from the Republic, totally on lower price grounds.

The leather industry remained quite strong in the west during the sixties and early seventies, but thereafter the industry has been declining in these countries due to variety of factors, the chief of which are the rising cost of production caused by a much high wage level as compared to those in developing countries and strict pollution control measures. The environmental factor has done the main harm to tanneries in developed countries, resulting in large number of them being closed or shifted to developing nations. This gave opportunity to developing countries with cheap labour cost.

The leather industry moved in a well defined route from Northern Europe to Southern Europe, from Southern Europe to Taiwan and South Korea and from these two far eastern 'tigers' to China, Indonesia and Thailand. S. Korea, mainly in sports footwear made by giant concerns and Taiwan, on the back of small flexible units producing casual footwear, swept the market in 70's and 80's achieving an average growth rate during this period of 15-16%. However, for the last 3-4 years due to wage factors, leather

industry in Italy, S. Korea and Taiwan is facing adverse fortunes and is showing signs of moving away to other low cost countries.

Among all importing countries today, USA (the biggest producer of leather and leather products in 70s) tops the list, accounting for about 35% of all leather product (with footwear and footwear components having the largest share in it) followed by Germany, accounting for about 18%, UK is a close third. All European countries and Scandinavia, with the exception of Spain, Italy, Portugal and Turkey, are the major importers of shoes and other leather products. Russia and other CIS countries, though produce leather products in good quantity, they remain major importers of leather articles. Other major producers of leather products in Eastern Europe like Czechoslovakia (the former home of Bata), Poland, Romania, Yugoslavia have now been reduced by more than half due to various reasons, including political unrest.

The world leather industry is characterised by the presence of a number of large manufacturers with well established brands. These manufacturers though themselves manufacture large quantities of footwear, they source large quantities of shoe uppers and full shoe from different countries like S. Korea, Taiwan, China, Brazil, India etc. These are sold under the brand name of the buyers. Reebok, an US based manufacturer is the biggest buyer of footwear from these countries. Other important companies are - Adidas Brown Shoes, Wilsons G III, Liz Claiborne, Hudson Bay, Torielli SPA, GIRBA, Bally Shoe Company, etc. The manufacturers of China, India (to large extent S. Korea and Taiwan also) supply footwear to these buyers-manufacturers.

Most of the successful exporters mainly S. Korea, Taiwan and China have well developed supporting industries. These countries have developed their leather industry mainly in line with Italian footwear industry. The Italian footwear cluster is given in Appendix C.

The average export prices in case of footwear are in the range of \$ 14-25 per pair. European export shoes cost \$ 19 and those in US cost \$ 25. Buyers are now moving to cheaper sources in China and India, where shoes can be had at \$ 4 a pair. The manufacturers in S. Korea and Taiwan compete in the middle price range at \$ 9 to \$ 12 per pair. China, having number of joint venture units with S. Korea, Taiwan and Hongkong, is seen as a tremendous threat to the footwear industry in many countries operating in the world market as it is able to meet the desired quality standards, while keeping the prices low.

The footwear and footwear components continue to dominate the import profile of world leather market with its share of more than 55%, leather garments account for 15%, leather accessories and travel goods account for 20% and balance is finished/semi finished leather and some quantity of upholstery.

The major exporters (particularly S. Korea, Taiwan and Italy) of leather and leather products in the global market today incidentally happen to be large importers of raw material too. Thus, a strong domestic raw material base (as in case of India) has not been seen as a necessary condition for gaining a big chunk of the world market for leather and leather products. The global availability of raw material (hides/skins) has not witnessed any remarkable growth.

2.2.1 Future Trends

The shift of industry from advanced countries to developing countries clearly indicates that wage factor has been the most crucial for the success of the industry in any country. This along with strict pollution control measures in advanced countries has given opportunity to countries like China, Indonesia, thailand, Brazil, Portugal, turkey, India, Pakistan, etc. Domestic raw material base is an additional advantage though not necessarily the most critical factor for the success of leather industry in a country.

The Governments of various developing countries have played a very crucial role for the success of leather industry. The presence of good infrastructural base, timely developed supporting industries and financial support from the government have been other critical success factors. Two trends are discernible. First, the industry will continue to move towards countries with low wage levels, given the fact that the technology in this industry is not very difficult to adopt and investments are lower than those in other industries. Secondly, it is highly unlikely that the industry will revive in advanced countries. With economies of developed countries emerging from the low, the demand for leather and leather products is bound to rise.

Factors such as the general economic situation, fashion-trend, price of the leather products, easy availability, climate, acceptability from the point of view of environment, do have a bearing on the demand on leather products in a country. It has been observed that the single most important factor affecting the demand for leather products is the personal disposable income.

This is borne out by the fact that the global trade in leather & leather products do stagnate or even dip a little low when there are recessionary trends in any advanced country. The recessionary phase between 1980-82 and 1988-91 witnessed such stagnation in global trade in leather products.

Table 2.9

Export of Leather and Leather Products from India.
(Rupees in million)

Product	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94
Semi-finished Leather	491	525	726	450	211	123	nil	nil	nil
Finished Leather	2882	4009	4860	6499	6935	7899	7262	8180	NA
Footwear	330	804	1280	1302	1714	2804	4306	5232	NA
Footwear Components	1903	2407	3238	4256	5182	5730	6636	6576	NA
Leather Garments	167	623	1057	1662	3329	5548	7368	9699	NA
Leather Goods	852	940	1287	1915	2929	3434	5613	7235	NA
Total	6625	9308	12448	16084	20300	25538	31185	36922	41393

[Source: NLDP Compilation, 1994].

Table 2.10
Overall Growth Potential

Year	Footwear & Components (million pairs)	
	Domestic	Export
1991	380	51.55 (470.04)
1992	400	65.00 (587.50)
1993	420	80.00 (750.00)
1994	440	100.00 (950.00)
1995	462	125.00 (1200.00)
1996	485	160.00 (1500.00)
1997	510	200.00 (1875.00)
1998	535	250.00 (2350.00)
1999	320	300.00 (3000.00)

Figures in parenthesis represent value in million US \$.
[Source: Murthy Committee report, 1992].

Table 2.11

Top Ten Importers of Indian Leather and Leather Products.

(Rupees in million)

Importing Country	93-94	92-93	91-92	90-91	89-90
Fed. Rep. of Germany	10166.95	8723.06	6839.43	5333.83	3562.82
USSR/CIS	1229.34	2326.40	3817.42	3212.88	3253.38
United Kingdom	4993.28	4098.75	3444.31	2812.25	2271.68
Italy	4054.63	3501.31	2765.24	2416.01	1806.94
USA	7557.08	6027.30	4269.50	2218.17	2607.02
France	1997.56	2271.88	1475.70	947.45	818.07
Australia	832.87	701.74	725.80	530.64	469.93
Hong Kong	-	-	-	429.62	n.a.
Spain	783.29	946.70	690.94	405.56	268.34
Japan	499.34	689.67	471.18	392.97	258.67

[Source: NLDP Compilation, 1994.]

Table 2.12

Estimated Production Capacities in Different Locations in India

Sl. No.	Location	Leather Pcs/day	Leather Shoes Prs/day	Leather Shoeupper Prs/day	Leather Sandals Pcs/day
1.	Ambur	120,000	30,000	60,000	-
2.	Calcutta	55,000	15,000	25,000	10,000
3.	Ranipet	66,000	12,000	30,000	-
4.	Vaniambadi	63,000	5,000	12,000	-
5.	Madras	55,000	18,000	50,000	10,000
6.	Kanpur	55,000	15,000	25,000	10,000
7.	Dindigul	12,000	-	-	-
8.	Pernambut	6,800	-	-	-
9.	Erode	32,000	-	-	-
10.	Trichy etc.	40,000	-	-	-
11.	Bombay	4,500	40,000	12,000	150,000
12.	Aurangabad	1,000	-	-	-
13.	Poona	-	-	-	5,000
14.	Kolhapur	1,000	-	-	10,000
15.	Agra	3,500	100,000	100,000	50,000
16.	Jullunder	10,000	5,000	15,000	2,000
17.	Delhi	5,000	20,000	50,000	5,000
18.	Hyderabad	10,000	-	15,000	5,000
19.	Bangalore	10,000	8,000	12,000	5,000

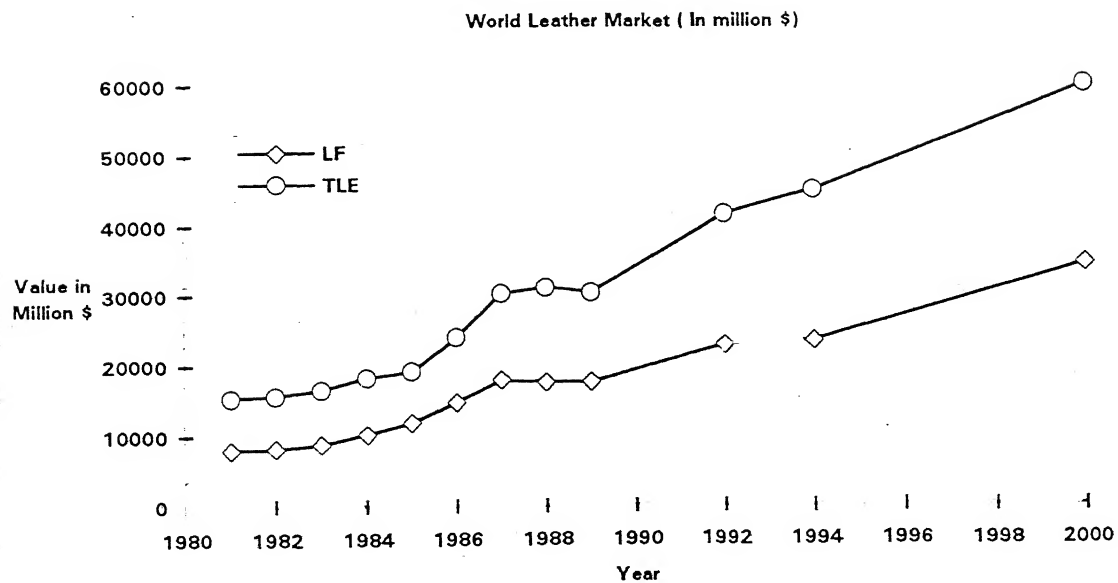
[Source: NLDP Compilation, 1994.]

Table 2.13
World Footwear Production (in million pairs)

	1982	1992	Percentage Change
Far East	3250	5165	+ 59
North America	495	292	- 41
South America	915	1050	+ 15
Middle/Near East (India, Pakistan Turkey, etc.)	770	941	+ 22
Western Europe	1310	1098	- 16
Eastern Europe	1565	715	- 54
Australia	42	27	- 36
Africa	290	300	+ 3
TOTAL	8637	9588	+ 11

[Source: World Footwear, March 94.]

WORLD LEATHER MARKET



CHAPTER 3

FRAMEWORK OF THE STUDY

Environmental analysis (scanning or appraisal) is the process by which corporate planners monitor the economy, government, supplier, technological and market settings to determine the opportunities for and threats to their enterprise. In other words, environmental scanning consists of identifying and analysing environmental influence individually and collectively to determine their potential effects on an organisation and the consequent problems and opportunities [Chopra, 85]. The modern age is characterized by changing external conditions making for a more complex, uncertain and sometimes a turbulent environment. To deal with dynamic nature of environmental conditions firms has to have a systematic effort to analyse and predict the changes. Environmental factors can be categorised as [Thomas, 1972]

1. Political Conditions
2. Social Conditions
3. Economic Conditions
- 4, Legal/Regulatory Conditions
5. Business Conditions
6. Technological Conditions

Environmental factors of various categories may be of general or specific relevance to enterprises. Further, each enterprise may perceive the relevant environment in the light of its own interest and set of circumstances which affect its functioning. Thomas (1972) has suggested that distinction may be made between

three orders of environment indicators to decide upon the question of relevance. Thus, depending on the nature of environmental factors to be considered management may distinguish between:

1. Indicators which affect all business enterprises at national level. These indicators may be easy to identify but difficult to measure e.g. attitude of political parties towards private enterprise, foreign economic relations, hostilities with neighbouring countries etc.
2. Indicators relating to particular industry sector e.g. for garment industry in India - the import-export policy of the Government of India, import restrictions in US and Western European countries, reservation of industries for small scale sector, delicensing of specific industries and the like. These indicators may be relatively easier to measure though not so easy to identify.
3. Indicators relevant to individual enterprises.

3.1 GOVERNMENT POLICIES AS ENVIRONMENTAL FACTOR

With the passage of time, the role of Central, State and Local governments have increasingly tended towards regulation of the market economy through administrative and legal measures. It has been a common belief in the large business sector in India that government regulatory factors were considerably more significant than other environmental conditions in strategic planning. Indeed, reflecting the government's policy of intervention in and overruling of market forces, a plethora of regulations, both positive and negative, have had explicit as well as implicit bearing on the prospects of business and industry in India [Thomas, 1972].

Government regulation of business and industry continued to be sustained till the 70's due to the prevailing view that government should compensate for and correct 'market failures' causing inequities and imbalances in the economy, and government should ensure allocation of resources for economic development according to planned priorities rather than depending on market forces. The legal regulatory conditions which thus emerged comprised of

- industrial licensing
- import restrictions
- differential taxes, exemptions and remissions
- rationing and price control in specific product markets
- foreign exchange control including regulation of the flow of foreign capital, technology, foreign collaboration and joint ventures under the Foreign Exchange Regulation Act (FERA)
- reservation of industrial fields for the public sector and small scale enterprises
- control over expansion of existing capacity and creation of fresh capacity in the case of large industrial houses, dominant (monopolistic) undertakings and interconnected concerns under the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969.

Changes in government regulatory policies have been of major consequence to the prospects of many companies in India. For instance, when the manufacture of cycle tyres was reserved for the small-scale sector, large-scale units producing cycle tyres had to discontinue production. Government decision to extend fiscal protection and incentives to the powerloom sector had serious

impact on the textile mills.

The Transport Corporation of India was earlier in the MRTTP category with assets grossing Rs. 40 crores; with the upper limit raised, the company was enabled to go ahead with plans to expand its steel plant capacity along with the implementation of its toilet soap project and establishing a wire rod mill, at a cost of Rs. 20 crores in all. (India Today, 15 April, 1985).

The policy of deregulation and structural reforms announced by the Government of India since July 1991 have provided wide scope for expansion of industrial concerns. The thrust is towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. Thus, along with the opportunities of expansion and growth, industrial enterprises have to face a greater competitive environment domestically and internationally.

Some of the policy measures adopted in the above context are as follows:

- Abolition of industrial incensing for all projects except for a short list of industries
- Removal of the threshold limits of assets in respect of MRTTP companies and dominant undertakings, thus eliminating the requirement of prior approval of government for the establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover of companies
- Automatic permission for foreign technology agreement in high priority industries subject to prescribed limits of lumpsum and annual royalty payments
- Repeal of the Capital Issues (Control) Act in May 1992 and

corporate public issues being subject to the guidelines issued by the Securities Exchange Board of India (SEBI) for investor protection.

- Reduction of duties/taxes.

In this work an attempt has been made to analyse the impact of legal/governmental factors taking industry as level of indicator. The industry analysis has significant importance in the systematic assessment of dynamics which shape the present and future course of an industry. In this study, we have used Porter's (1980) frame work related to forces driving industry competition factors relevant to the leather industry and impact of various government policies (as an external environmental factor) on it.

3.2 FORCES GOVERNING THE INDUSTRY

Porter (1980) has identified five forces which govern the competition in the industry. These forces are:

3.2.1 Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. This can result in down bidding of prices which reduces profitability of existing firms. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect.

There are eight major sources of barriers to entry. These are:

(a) Economies of Scale

Economies of scale refer to declines in unit costs of a

product as the absolute volume per period increases. Economies of scale deter entry by forcing the entrant to come in at large scale and risk strong reaction from the existing firms or come in at a small scale and accept a cost disadvantage, both undesirable options. Scale economies can be present in nearly every function of a business, including manufacturing, purchasing, research and development, marketing, service network sales force utilisation and distribution. Economies to vertical integration force the entrant to enter integrated in order to avoid cost disadvantage.

(b) Product Differentiation

Product differentiation means that established firms have brand identification and customer loyalties, which stem from past advertising, customer service, product differences, or simply being first into the industry. Differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties.

(c) Capital Requirements

A barrier to entry is created by the need to invest large financial resources in order to compete, particularly if the capital is required for risky or unrecoverable up-front advertising or Research and Development. Capital may be necessary not only for production facilities but also for things like customer credit, inventories etc.

(d) Switching Costs

A barrier to entry is created by the presence of switching costs, that is, one-time costs facing the buyer of switching from one supplier's product to another's. It may also include employee retraining costs, cost of new ancillary equipment, cost and time

in testing or qualifying a new source, product redesign, etc. If these switching costs are high, then new entrants must offer a major improvement in cost or performance in order for the buyer to switch from an incumbent.

(e) Access to Distribution Channels

A barrier to entry can be created by the new entrants' need to secure distribution for its product. To the extent that logical distribution channels for the product have already been served by established firms, the new firm must persuade the channels to accept its product through price breaks, co-operative advertising allowances, and the like, which reduces profits. Existing competitors may have ties with channels based on long relationships, high quality service, or even exclusive relationships in which the channel is solely identified with a particular manufacturer.

(f) Cost Disadvantages Independent of Scale

Established firms may have cost advantages not replicable by potential entrants no matter what their size and attained economies of scale. The most critical advantages are factors such as followings:

- Proprietary product technology
- Favourable access to raw materials
- Favourable locations
- Government subsidies: preferential government subsidies may give established firms lasting advantage in some businesses.
- Learning or experience curve

(g) Government Policy

Government policies can limit or even foreclose entry into industries with such controls like licensing requirements and limits on access to raw materials. More subtle government restrictions on entry can stem from controls such as air and water pollution standards and product safety and efficacy regulations.

(h) Expected Retaliation

The potential entrants' expectations about the reaction of existing competitors also will influence the threat of entry. If existing competitors are expected to respond forcefully to make the entrants' stay in the industry an unpleasant one, then entry may well be deterred. Conditions that signal the strong likelihood of retaliation to entry and hence deter it are the following:

3.2.2 Intensity of Rivalry Among Existing Competitors

Rivalry among existing competitors takes the familiar form of racing for position - using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. Intense rivalry is the result of a number of interacting structural factors.

(a) Numerous or Equally Balanced Competitors

When firms are numerous, the likelihood of mavericks is great and some firms may habitually believe they can make moves without being noticed. Even where there are relatively few firms, if they are relatively balanced in terms of size and perceived resources, it creates instability because they may be prone to fight each

other and have the resources for sustained and vigorous retaliation. When the industry is highly concentrated or dominated by one of a few firms, on the other hand, then there is little mistaking relative strength, and the leader or leaders can impose discipline as well as play a coordinative role in the industry through devices like price leadership.

(b) Slow Industry Growth

Slow industry growth turns competition into a market share game for firms seeking expansion. Market share competition is a great deal more volatile than is the situation in which rapid industry growth insures that firms can improve results just by keeping up with the industry.

(c) High Fixed or Storage Costs

High fixed costs create strong pressure for all firms to fill capacity which often lead to rapidly escalating price cutting when excess capacity is present. Firms purchasing a high proportion of costs in outside inputs (low value added) may feel enormous pressures to fill capacity to break even, despite the fact that the absolute proportion of fixed costs is low.

A situation related to high fixed costs is one in which the product, once produced, is very difficult or costly to store. Here firms will also be vulnerable to temptations to shade prices in order to insure sales. This sort of pressure keeps the profits low in the industry.

(d) Lack of Differentiation or Switching Costs

Where the product is perceived as a commodity or near commodity, choice by the buyers is largely based on price and service, and pressures for intense price and service competition

other and have the resources for sustained and vigorous retaliation. When the industry is highly concentrated or dominated by one of a few firms, on the other hand, then there is little mistaking relative strength, and the leader or leaders can impose discipline as well as play a coordinative role in the industry through devices like price leadership.

(b) Slow Industry Growth

Slow industry growth turns competition into a market share game for firms seeking expansion. Market share competition is a great deal more volatile than is the situation in which rapid industry growth insures that firms can improve results just by keeping up with the industry.

(c) High Fixed or Storage Costs

High fixed costs create strong pressure for all firms to fill capacity which often lead to rapidly escalating price cutting when excess capacity is present. Firms purchasing a high proportion of costs in outside inputs (low value added) may feel enormous pressures to fill capacity to break even, despite the fact that the absolute proportion of fixed costs is low.

A situation related to high fixed costs is one in which the product, once produced, is very difficult or costly to store. Here firms will also be vulnerable to temptations to shade prices in order to insure sales. This sort of pressure keeps the profits low in the industry.

(d) Lack of Differentiation or Switching Costs

Where the product is perceived as a commodity or near commodity, choice by the buyers is largely based on price and service, and pressures for intense price and service competition.

result. Product differentiation, on the other hand, creates, layers of insulation against competitive warfare because buyers have preferences and loyalties to particular sellers. Switching costs, described earlier have the same effect (Sec. 3.2.1 (d)).

(e) Capacity Augmented in Large Increments

Where economies of scale dictate that capacity must be added in large increments, capacity additions can be chronically disruptive to the industry supply/demand balance, particularly where there is a risk of bunching capacity additions. The industry may face recurring periods of over capacity and price cutting.

(f) Diverse Competitors

Competitors diverse in strategies, origins, personalities, and relationships to their parent companies have differing goals and differing strategies for how to compete and may continually run head on into each other in the process. They may have a hard time reading each other's intentions accurately and agreeing on a set of " rules of the game " for the industry. Strategic choices right for one competitor will be wrong for others.

Foreign competitors often add a great deal of diversity to industries because of their differing circumstances and often differing goals. Owner-operators of small manufacturing firms may as well restrict the profitability because they may be satisfied with a subnormal rate of return on their invested capital to maintain the independence of self-ownership, whereas such returns are unacceptable to a large publicly held firm. In such an industry, the posture of the small firms may limit the profitability of the large concern.

(g) High Exit Barriers

Exist barriers are economic, strategic and emotional factors that keep companies competing in business even though they may be earning low or even negative returns on investment. The presence of specialised assets, fixed cost of exit, strategic inter relationship, government and social restrictions make the exit barriers high.

3.2.3 Bargaining Power of Buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other - all at the expense of industry profitability. A buyer group is powerful if the following circumstances hold true -

- It is concentrated or purchases large volumes relative to seller sales.

If a large portion of sales is purchased by a given buyer, this raises the importance of the buyer's business in results. Large volume buyers are particularly potent forces if heavy fixed costs characterize the industry. - The product it purchases from the industry represents a significant fraction of the buyer's costs or purchases.

- The products it purchases from the industry are standard or undifferentiated.

Buyers, with alternative suppliers availables, may play competitors against each other.

- It faces few switching costs. Switching costs, explained earlier(3.2.1(d)), lock the buyer to particular sellers.

Conversely, the buyer's power is enhanced if the seller faces switching cost.

- It earns low profits. Low profits create great incentives to lower purchasing costs., Highly profitable buyers, (if the items does not represent a large fraction of their costs) are generally less price sensitive and may take a longer run view toward preserving the health of their suppliers.
- Buyers pose a creditable threat of backward integration: If buyers either are partially integrated or pose a creditable threat of backward integration, they are in a position to demand bargaining concessions. Buyers power can be partially neutralized when firms in the industry offer a threat of forward integration into the buyers' industry.
- The industry's product is unimportant to the quality of the buyer's products or services. - The buyer has full information. Where the buyer has full information about demand, actual market prices, and even supplier cost, this usually yields the buyers greater bargaining power than when information is poor.

3.2.4 Bargaining Power of Suppliers

Suppliers can exert bargaining power over firms in an industry by threatening to raise prices or reduce the quality of purchase goods. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

A supplier group is powerful if the following circumstances hold true -

- It is dominated by a few companies and is more concentrated than the industry it sells to. Suppliers selling to more fragmented buyers will usually be able to exert considerable influence in prices, quality and terms.
- It is not obliged to contend with other substitute products for sale to the industry. - The industry is not an important customer of the supplier group. When suppliers sell to a number of industries and a particular industry does not represent a significant fraction of sales, suppliers are much more prone to exert power. If the industry is an important customers, supplier's fortunes will be closely tied to the industry and they will want to protect it through reasonable pricing and assistance in activities like Research and Development.
- The supplier's product is an important input to the buyer's business. Such an input is important to the success of the buyer's manufacturing process or product quality. This raises supplier power. This is particularly true where the input is not storable, thus enabling the buyer to build up stocks of inventory.
- The supplier group's products are differentiated or it has built up switching costs. Differentiation or switching costs facing the buyers cut off their options to play one supplier against another. If the supplier

faces switching costs the effect is reverse.

- The supplier group poses a creditable threat of forward integration. This provides a check against the industry's ability to improve the terms on which it purchases.

3.2.5 Government as a Force in Industry Competition

In many industries, government itself is a buyer (as in case of defence related products) or supplier (as in case of mining etc.) and can influence industry competition by the policies it adopts. Government regulations can also set limits on the behaviour of firms as suppliers or buyers. Government can also affect the position of an industry with substitutes through regulations, subsidies, or other means. It can also affect rivalry among competitors by influencing industry growth, the cost structure through regulations, and so on.

Government also has a predominant role in building infrastructural facilities for the industry and R & D project funding and hence the upgradation of the technology. Government also influences the demand conditions and by that it affects the competition in the industry. Also governments' trade policy affects the exports as well as imports. By boosting exports, it increases the demand of the products of particular industry internationally. The import duty cuts by the government opens the domestic industry to face the international competitors, thereby increasing the competition.

Thus no structural analysis is complete without a diagnosis of how present and future government policy, at all levels, will affect structural conditions.

CHAPTER 4

DESIGN OF STUDY

4.1 INTRODUCTION

The chapter covers objective and scope of the study, followed by the frame work of the study with its various stages.

4.2 OBJECTIVE

To study the leather industry in Kanpur, its present structure and impact of various legal/governmental factors on it, focussing mainly on Tanning and Footwear sectors. The government policies which are included in this study are:

- Industrial Policy
- Import-Export Policy
- Foreign Investment Policy
- Pollution Control Policy

4.3 SCOPE

The scope of the present study includes studying the leather industry in Kanpur. It aims at studying the current status and identifying growth constraints of the industry in Kanpur. Its main objective however, is to study the impact of recent government policies on the leather industry. The study mainly covers the two most important segments of the industry - tanning and footwear production.

4.4 FRAMEWORK OF STUDY

The literature survey revealed a number of important factors which could greatly influence the performance of an industry.

Keeping the objective and scope of the study in mind, the various stages of the study were planned.

4.4.1 Identification of Critical Factors

To achieve the objective, it was first necessary to identify all the critical factors relating the industry which could probably be influenced by the govt. policies. In the Chapter Three, various factors critical to the industry have been described. Various government policies relating leather industry have also been written down in Appendix A.

4.4.2 Generation of Research Questions

A detailed literature search helped in generating number of research questions. Since, there has not been any detailed study on leather industry in Kanpur and particularly on the topic of this kind, it became mandatory to contact people concerned with the industry (it is evident from the fact that there is no proper reliable data on the Leather Industry in Kanpur available with the various institutions). A number of visits were made to the educational institutions (Government Leather Institute, Central Leather Research Institute, Harcourt Butler Technological Institute) and few units engaged in tanning and footwear manufacturing. The specific research objectives were:

1. To examine the current status and structure of the leather industry in Kanpur.
2. To study the impact of various government policies on the tanning and footwear industry in Kanpur.
3. To study the impact of the Pollution Control norms on tanneries in Kanpur.

4.5 RESEARCH METHOD

Since the research questions generated were mainly of the form - 'what', trying to explore the effect of govt. policies on various industry related factors, a broad based and survey oriented research strategy was found to be the most appropriate [Yin, 1984]. It was decided to collect necessary data by conducting a non schedule - structured interview (Nachmias, 1985).

4.6 PREPARATION OF QUESTIONS FOR INTERVIEW

In order to achieve the aforementioned objectives, guidelines were prepared in the form of questions to be used for interview purpose [Appendix C].

The first part of the survey tries to obtain profile of respondents while the second part is to study the impact of government policies.

The first section of the first part of the survey deals with the reasons for entry into leather industry, product range, inventory levels and investment made in setting up of a unit. This section helps in determining the entry barriers and the level of threat from the new entrants, as perceived by the existing firms.

The second section on human resources deals with the total number of employees at different levels, salary structure, their educational level and availability.

The third section on financial status attempts to measure the attractiveness of the industry. The next section on installed capacity deals with percentage of capacity utilization in this industry and the factors influencing it.

The section on technology tries to find out the level of technology, availability of capital goods and problems in acquiring machines and spare parts. It also tries to find out facts about the existing technology, need for modernisation, etc.

The next section deals with buyers and suppliers to this industry with an aim to know about their bargaining power, marketing tie-ups, etc. It also tries to identify various constraints the industry faces.

The last section of this part of survey deals with industry competition. It attempts to understand the level of competition in domestic as well as in export market. It also tries to analyse the competitive strategy of various firms.

The second part of the survey which aims at studying the impact of govt. policies on various factors, covers the policies like - Industrial policy, export-import policy, pollution control policy duty structure and policies at state govt. level. This part tries to measure the influence of govt. policies on the following factors -

1. Factors guiding competitive forces in the industry:
 - the bargaining power of buyers and suppliers
 - the threat of new entrants, and entry barriers
2. Supporting industries (chemical industry, capital goods industry, footwear component industry, etc.)
3. Factor conditions like raw material, infrastructure, educational institutions, human resources, etc.

A separate set of questions were prepared to have a thorough understanding of pollution control laws and its influence on the industry.

4.7 SELECTION OF FIRMS FOR VISIT

The tanning activity is highly dominated by small scale units and a large number of them have very small installed capacity (4000 - 6000 raw hides per annum with turn over less than Rs. 10 lacs). A number of tanneries depend on job work from big tanneries, performing just 2-3 operations. These two types of units were excluded from the sample as it was observed that their awareness about government policies was not enough to serve our purpose. Keeping the objective of the study in mind, unorganized sector was also excluded from the study.

To study the impact of government policies, sample was taken from tanneries based on their level of operations i.e. small scale and medium to large scale scale. It was further divided based on the market they serve, i.e. domestic and export market. Since all the tanneries in Kanpur operate in both the markets, a further division was done based on high and low exports [Table 4.1]. In case of footwear manufacturers, the sample was decided on the basis of integration. Units were chosen for study with tanning and footwear both and only footwear. The sample was further classified based on level of exports - high and low [Table 4.1].

The main reason for taking such a sample was the objective of study which required a good knowledge about various government policies. At the early stage of study, it was realised that the awareness about government policies, in case of units not doing exports was very low. This is why, the units with no exports were excluded. Another reason for taking export as criteria is that the government has identified this industry as export oriented and

its policies have been designed on this basis. This, however, was not followed strictly in case of tanneries, as the topic included pollution control policy also.

Most of the units in Kanpur are family owned with the owner involved in all the operations, right from purchasing of raw material to marketing. That is why, in most of the cases, owners of the units were contacted. However, in case of large scale firms, persons at senior level were contacted. In all these cases, owners suggested the names of the persons to be contacted for study purpose.

Table 4.1
Firms Selected for Survey

Level of Exports	Type of Units			
	Tanneries		Footwear Manufacturers	Tanneries Integrated in Footwear Making
	Small	Medium		
High	1 (Exports 40-50%)	2	3 (Exports 100%)	2 (Exports 100%)
Low	2 (Export nil)	-	1	2

In order to obtain overall picture of the industry in Kanpur discussions on various issues with important persons at various offices/institutions were made. The places considered for this purpose were:

- Central Leather Research Institute
- Council for Leather Exports
- Department of Leather Technology, Harcourt Butler Technological Institute

- Government Leather Institute
- Leather Cell (Directorate of Industries)
- Association of Raw Hide Merchants
- UP Financial Corporation

To understand the issues relating pollution control policy and its implementation, persons at the following places were contacted:

- * Ganga Action Plan
- * Central Pollution Control Board
- * Small Tanners Association
- * Unnao Tanneries Pollution Control Company Ltd., Unnao.

4.8 DATA COLLECTION

This was the most difficult part of study, as it needed more than 30 visits to Jajmau, Unnao and other places in Kanpur before survey could be completed. The survey consisted of two parts, one was in the form of questionnaire to be filled up by the respondent and the second part was interview based on various points related to government policies. The level of cooperation was maximum in case of the two tanners (at small scale) as they themselves wanted to discuss about pollution control issue. In other cases, a lot of effort was required to get time for interviews, mainly due to busy schedule of the owners. A few firms were not willing to share financial and manpower data. Most of them also refused to talk about their marketing strategy and their buyers. In most of the cases, persons interviewed were clear only about those policies which directly affected their business, i.e., footwear manufacturers were generally not aware of pollution control policy.

To understand the whole network of raw hide collection and various relating issues, a number of individuals in the business, including President of the Raw Hide Merchants Association were contacted.

4.9 ANALYSIS AND CONCLUSION

At the end of the study, the data collected was analysed.

The first part of the survey (to obtain respondent's profile) was used to collect various information, about the units. It helped in analysing various important factors, e.g., gross profit margin, capacity utilization, manpower composition, percentage of imported machinery used, investment required etc. The second part of the survey helped in understanding impact of policies from industry's point of view. There were a number of contradictions and confusions, observed when comparison was made among various answers. Discussions with Senior Scientist at Central Leather Research Institute, Kanpur, Officers at Council for Leather Exports, Directorate of Industries, etc. on these points, helped in getting clear picture about the industry and other issues. This information was also compared with data collected through questionnaire and a further refinement was made. Finally, all the information was put down following various industry related factors as suggested in Porter's (1980) frame work of industry analysis. At the end, conclusions were drawn on the basis of analysis.

CHAPTER 5

LEATHER INDUSTRY IN KANPUR

5.1 HISTORY

The growth of leather industry in Kanpur can be traced back to Mughal period when it was one of the major centres for leather works. However, the industry took a proper shape only during the British period. Before Britishers, Vegetable Tanning, producing heavy leather, was the only method used to obtain leather.

During 1856-57, as the demand for leather goods increased in British army, the Britishers started tanning raw hides using western methods. In 1868, a factory, to produce harness and saddlery was established in Kanpur by the british government. The small tanneries spread in and around Kanpur (mainly at village level) were the main suppliers of leather to this factory. Though the quality of local supply was inferior to that of imported leather, the demand for locally manufactured leather kept increasing. In 1880, two Britishers, W.E. Cooper and George Allen established Cooper - Allen factory which was the first mechanised unit in whole Asia to manufacture leather goods. The main buyer of this factory was the British army. Later on in 1908 it started making footwear for general public also.

In 1897, North-West Tannery was established to produce leather for industrial use. The labour and workers were Indian, while the supervisors, experts and managers were Britishers. This was the first exposure to western method of leather making for

Indians. Till 1902, there were just 2 big tanneries (Kanpur Tannery and Sewan tannery) in private sector, though there were many small tanneries spread at village level. During the World War I, the demand for leather products increased rapidly. This gave opportunity to indians to open new tanning units. Cooper-Allen & Saddlery & Harness factories acted as catalyst to this growth. During this period a number of new educational institutions also came up to support the leather industry. In 1916, Government Leather Works School was established in Kanpur to train and educate indian workers. A number of leather institutes were started in different parts of Uttar Pradesh, under the direct control of Government Leather Works School (the present Government Leather Institute). The demand, even after the war kept increasing and Kanpur established itself as a quality leather producer in the world market.

There was no significant changes in the number of Tanneries in Kanpur. Except Cooper-Allen factory, shoe making remained at artisan level, (at village level) mainly to cater the local markets. Again during the second world war, there was a rapid growth in tanning industry in Kanpur. But after that from 1942 to 1955, just one new tannery (Union Model Tannery) came up. After independence, central and state government with the help of various institutions encouraged villagers to set-up small tanning units, but these units due to various reasons (like quality, small quantity produced by them, poor transport facilities etc.) failed to attract the market and very soon lost their significance. The year 1955 saw opening up of a number of new tanneries, making semi finished/finished leather, with few of the units integrated to

leather product manufacturing also. During this period, Cooper-Allen started making losses as britishers had lost their interest. The Cooper-Allen along with North-West Tannery was sold to Mundhras in 1956 and later on it was acquired by Bajorias. Finally, it was taken over by the government of India in 1969 to protect the interest of 2500 workers of these factories and the two units were merged to form TAFCO (Tannery & Footwear Corporation), TAFCO, the only Govt. of India undertaking unit in leather industry, with huge accumulated losses (Rs. 35.55 crores as on 31 March, 1984) is at present under the consideration of BIFR. Till seventies, the growth of the industry was slow, however, there was a significant change in industry structure, as a number of tanneries entered leather goods manufacturing. In Uttar Pradesh (mainly Kanpur-Unnao) 80% of the existing tanneries in small scale have been setup after 1973. By 1988, there were total 147 tanneries (140 in small scale and 7 medium to large scale), with Kanpur having 127 in small scale sector and 6 in medium to large scale. As of today, Kanpur-Unnao have about 200 tanneries in all and a number of footwear and other leather product manufacturers. It is the only centre of saddlery and harness manufacturing in India.

The leather industry has three distinct activities, each linked vertically to the other. These are:

1. Raw hides/skin collection (including carcass flaying and slaughter houses).
2. Leather Tanning (Vegetable Tanning and Chrome Tanning)
3. Leather Products manufacturing

CENTRAL LIBRARY
I. I. T., KANPUR
No. A.121562

Kanpur is one of the most important centres in India where all these three activities are concentrated. Since the tanning activity is done at large scale in Kanpur, there is a net inflow of raw hides and skins from all over UP (and other parts of the country) and a net outflow of finished leather to various centres of leather product in and outside Kanpur which includes export also.

5.2 RAW HIDE COLLECTION

The raw hide collection, the primary activity of the industry is dispersed throughout the rural area of the state. The dead animals in the villages are flayed by traditional flayer community members. The flaying activity is technologically backward. The use of very elementary tools and lack of proper transporting facilities (dead animals are taken to flaying places on bullock cart, cycles, etc.) along with untrained flayers are the main reasons for poor quality of hides and skins. These hides are cured in salt-water to increase the shelf life, till these hides are tanned. The hides and skins are then sold by flayers to a license holder (a contractor or a cooperative society). The right to collect raw hides is auctioned to the highest bidder every year. This right is given in the form of a licence by Zila Parishad and State Khadi and Village Industries Board. The licence fee may vary from Rs. 10000/= to few lacs depending on the size of a block. The flayers are given just labour charges (ranging between Rs. 40 to Rs. 50 per hide) depending on size and quality of hide) by these contractors. There are certain cooperative societies of flayers involved in raw hide collection (few of them also have tanning facilities upto semi finished

stage). The contractors and cooperative societies sell these hides at nearby weekly markets, where agents of traders of large markets (mainly Hapur, Chauri Chaura and Kanpur in UP) operate [Table 5.1]. The raw hides are then transported by road, to godowns of these big markets. The traditional village flayers, though controlling the most vital raw material for the industry, is also the most disadvantaged. The high licensing fee automatically precludes the possibility of the flayers bidding for licence. Since flayers cannot sell hides to anyone but to the contractor of the same block, the price of hides is dictated by contractor. The flayer is thus paid for his labour only and the rental income which is Rs. 300 to Rs. 500 per hide and upto Rs. 250 per skin is shared between the state government (in the form of licence fee) and contractor [Source: Survey of Raw Hide Market].

The state government to remove this anomaly, decided to give priority to cooperative societies of these flayers but things have not improved much due to corruption and muscle power of contractors.

5.2.1 RAW HIDE MARKET IN KANPUR

In Kanpur, the raw hide market is dominated by a particular community. It has been observed (as mentioned by members of Raw Hide Merchants Association and was cross checked with tanners) that there are generally close social linkages among primary hide contractors, the wholesale hide traders and the tannery owners. The wholesale traders of raw hide market help (through money) their relatives to acquire licence for hide collection. Similarly the tanners also have their relatives as wholesale raw hide

merchants. Because of very strong social and community linkages, there is a very high barrier to entry in this trade. It is generally very difficult for an outsider to get right price for raw hides, whether he is selling raw hides or buying raw hides from these market. The following table gives details of raw hide markets located near Kanpur.

Table 5.1

Business Transacted in Major Hide Markets of UP.

Market	No. of Traders	Frequency	No. of Hides per day	Total Value* of Business
Hapur	300	Sunday	60,000	600
Chauri Chaura	150-200	Saturday	20,000	200
Kanpur	250	Daily	30,000	1600

* Rs.(in million) per annum.

Source: CLRI Survey, 1992, Field Survey at Kanpur.

In Kanpur raw hide market, the storing facilities are almost absent. The hides are handled manually and are generally kept in open space. Due to great demand for raw hides and skins the storage period is very low, however, in summer a lot of care is needed in storing raw hides. Kanpur receives raw hides and skins from outside the state also. Its mains buyers are different tanneries situated in Kanpur and Unnao, however a large quantity of raw hides is supplied to tanneries in Madras and Calcutta also. Due to shortage of raw hides supply and increasing demand, the prices of hides and skins have increased by more than 100% in last 2 years [Table 6.1].

5.3 LEATHER TANNING

Kanpur is one of the largest centres for leather tanning in India with about 200 tanneries, spread mainly in Jajmau-Unnao. It produces approximately 55,000 leather pieces per day which is about 10 percent of the total tanning capacity in India [Table 2.12].

Tanning is a two stage process

- Wet blue tanning
- Finishing.

Most of the tanneries in Kanpur perform both the processes, but, since the wet blue tanning is a time taking process, there are a number of small tanneries doing wet blue tanning for big tanners as job work. The smaller tanneries depend on one another for certain operations like measuring, splitting (Appendix B.5) etc. as it is uneconomical for small tanners to have all these facilities due to their small installed capacity and high cost of machines. The tanneries having these machines generally take job works from other tanneries in order to utilize these machines optimally. For various testings most of the tanneries largely depend on Central Leather Research Institute and Harcourt Butler Technological Institute, (which can be done by paying a fee ranging between Rs. 200 to 1000 depending on nature of testing), while few of them having some of the testing facilities.

The good quality finished leather is sold to leather goods manufacturers in and outside Kanpur, and a large quantity of finished leather is exported to different countries [Table 2.11]. The finished leather with poor quality is consumed by small leather product manufacturers at Cottage Industry level. A number

of tanneries in Kanpur process buffalo hides, using vegetable tanning. Leather so produced is known as heavy leather and is primarily used in manufacturing of sole, travel goods and saddlery and harness. Till late 70's tanning industry in Kanpur was dominated by vegetable tanning units, however today most of the tanneries (about 80%) are using chrome tanning or both [The value addition in case of chrome tanned leather is much higher as this is mainly used for high value items like shoe uppers, leather garments and leather goods].

5.3.1 Industry Structure

In Kanpur most of the tanneries are family owned or on partnership basis and are in small scale sector. There are two public limited tanneries and TAFCO (Tannery & Footwear Corporation), a Government of India undertaking. The selection of good quality raw hide is the most critical activity in this sector which depends purely on one's experience. It was observed that most of the tannery owners have past experience of operating in raw hide market. This fact acts as entry barrier for first generation entrepreneurs. The medium to large scale tanners produce finished leather from wet blue leather as per licensing policy. A large number of tanneries have integrated in the field of leather goods.

5.3.2 Technology

Tanning industry in Kanpur is technologically backward, with large number of tanneries, continuing with the same old technology and machines. The technology used in industry in Kanpur is characterised by

- use of pets, paddles and drums in the beam house

operation,

- excess use of water and chemicals resulting in heavy effluent load,
- certain critical operations are performed manually,
- drying of leather in open air (MITCON Report, 1991).

This is also evident from the fact that unlike Madras tanneries in Kanpur were late in adopting chrome tanning. It is interesting to note here, that Kanpur has institutions like Government Leather Institute, extension centre of Central Leather Research Institute, a leather technology department in Harcourt Butler Technological Institute, exclusively working for this industry and above all Indian Institute of Technology. However, for the last few years, there has been a marked improvement in this field.

5.3.3 Human Resources

The adequate availability of skilled manpower and supervisors is the main strength of the industry in Kanpur. The presence of various industry related educational institutions has been a big help for the industry. As per Directorate of Factories, in 120 tanneries registered under Factory Act 1948, there are total 6805 workers. The percentage of skilled labour is, however, less than the average value for tanneries in India (Sec. 6.2).

5.3.4 Marketing

The buyers of this industry are leather goods manufacturers. Kanpur, being the only manufacturer of saddlery and harness consumes a large part of vegetable tanned leather. A significant part of finished leather is consumed by manufacturers of other leather products within Kanpur and other parts of the country.

Kanpur is one of the main exporters of finished leather in India with the share of about 10 percent of total exports of finished leather from India. The exports are made either directly or with the help of agents of foreign buyers. The Regional Office of Council for Leather Exports at Kanpur helps these exporters in this regard.

5.3.5 Raw Material

Raw hides and skins is the primary raw material for tanning industry. Other important input to the industry is leather chemicals. The supply of all leather chemicals is made through agents, dealers and marketing divisions of big manufacturers like Colour-Chem (a subsidiary of Hoechst), BASF, SANDOZ, Associated Chemicals, etc. There are no major manufacturers of leather chemicals in or near Kanpur. There are a few smaller units in Kanpur-Unnao area manufacturing BCS, Sodium Sulphide and other general chemicals. Similarly for the supply of capital goods, tanners are to depend mainly on agents/dealers of Capital goods manufactures of India and abroad.

5.4 FOOTWEAR AND FOOTWEAR COMPONENTS

Kanpur is a prominent centre for leather goods manufacturing in India. It is also the only producer and exporter of saddlery and harness in India. It is also known for industrial and safety boots leather garments, shoes, shoe uppers, travel goods, bags, sandels and chappels being manufactured in large scale. Footwear manufacturing is the most important among them.

5.4.1 Industrial Structure

Kanpur has a large number of small manufacturers of leather footwear. There are about 113 units registered with Directorate

of Factories under Factory Act, 1948. There are certain localities in Kanpur where every second house is involved in this business. These manufacturers are mainly catering the domestic market within and outside Kanpur. Most of the footwear and footwear component manufacturers belong to small scale sector. There are very few manufacturers in medium to large scale, with no 100% export oriented unit in Kanpur, TAFCO (Tanneries & Footwear Corporation) is the only footwear unit which is a government undertaking.

5.4.2 Technology

The footwear manufacturing in Kanpur can be divided into two categories - hand made and machine made footwear. The footwear sector is dominated by manufacturers, making 10 to 20 shoes per day without using any machines. The second type of units are semi-mechanised, working in more organised way mainly doing job works, sometime for exporters also. The machines used are locally manufactured. The third type of units are those units with fully mechanised operations having capacity of more than 200 shoes per day. The machines are mostly imported from countries like Germany, Czechslovakia, Italy, etc. This is due to the fact that the capital goods industry for footwear sector is highly undeveloped.

5.4.3 Raw Material

The finished leather and sole leather are the main ingredients for footwear. Kanpur has the advantage of having a number of sole leather and finished leather manufacturers. For other components like PU soles, adhesives, eyelets, shoe lining material, etc. the exporters largely depend on imports. Generally, these components, along with designs are provided by importers.

5.4.4 Supporting Industries

The development of capital goods industry for footwear sector has almost been zero. Similarly, the standardised components like PU soles, shoe tacks, in sole, counters, etc. of desired quality are not available in India. The problem of components, however, is not felt, by manufacturers serving domestic market as these components are available with dealers in Kanpur.

Footwear is a fashion item which needs a lot of designing efforts. There is no computer designing facilities available in Kanpur and the manufacturers are largely dependent on importers, Footwear Design and Development Institute, Noida and to some extent on Council for Leather Exports. (The Regional Office of this Council conducts short-term courses on footwear designing). This problem is likely to be solved as Central Leather Research Institute in Kanpur has installed CAD system in Feb. 1995 for footwear. The extension Centre of Footwear Design & Development Institute is also to start functioning in Kanpur in next few days.

5.4.5 Marketing

As in case of finished leather, the exports of footwear and footwear uppers are made either directly or through agents of foreign buyers mainly operating at Kanpur, Delhi, Bombay etc. The Council for Leather Exports acts as catalyst for the exports from Kanpur.

There is no branding of footwear exported from Kanpur, as is the case with almost all exporters in India. Footwear manufacturers, in this sense work as jobbers for importers with their established brand names. A large quantity of industrial and safety shoes are manufactured in Kanpur which are supplied to army

and heavy industries. TAFCO (with its brand name Flex) was the main supplier to army and other government departments. Even for domestic market, Kanpur footwear has no brand recognised in India.

Most of the footwear manufacturers participate in shoe fairs organised in India with few participating in fairs outside India. This helps participants in getting orders from foreign buyers. The expenditure in advertisements, except in case of participation in shoe fairs etc., is almost nil. The participation from the industry in Leather Blitz Campaign (Appendix A) was insignificant with just one footwear manufacturer participating in it. The footwear industry in Kanpur, with skilled work force easily available and access to finished leather is well placed in comparison to other centres of footwear making.

The Uttar Pradesh Government has accepted the proposal of setting up of a technology park and leather complex in Kanpur. This complex is to come up near Jajmau in 300 acres of land. This complex is being planned to accommodate the leather products industry. This may prove to be of great help for those smaller units working in congested areas within the city and want to modernize and expand. This complex is proposed to be developed as a technology park with following support services at an estimated cost of Rs. 18.00 crores.

- Footwear and Materials testing lab.
- Computer Aided Design system
- Fashion studio and display centre
- Technical information/data bank
- Common facility services

Table 5.2

Exports of Leather and Leather Goods from Kanpur (Rs. in Crores)

Year	Finished Leather	Footwear & Components	Leather Goods includes Saddlery and Harness	Total
84-85	17.82	61.29	10.45	89.56
85-86	17.27	72.31	12.30	101.88
86-87	22.31	94.71	16.29	133.31
87-88	29.27	91.96	20.82	141.25
88-89	34.29	128.92	15.23	183.34
89-90	48.13	136.20	24.00	208.33
90-91	70.00	183.39	28.00	281.39
91-92	90.38	233.85	57.26	381.49
92-93	91.86	152.45	63.39	307.70
93-94	85.76	180.23	62.83	358.33

Note: In case of footwear (upto 91-92) some export figures of Agra is also mixed.

Source: Council of Leather Exports, Kanpur

CHAPTER 6

RESULTS AND ANALYSIS

6.1 SAMPLE AND RESPONDENT PROFILE

The analysis here is based on 13 units operating in Kanpur. These firms belong to three different categories, Tanning, Footwear manufacturing, and Tannery & Footwear combined. These differ substantially from each other in terms of sales, year of establishment, manpower, etc.

The sample though small in comparison to number of units in Kanpur, covers all types of firms in this industry (except those tanneries which have integrated in production of leather products other than footwear and units in unorganised sector). The profile of the responding firms is given below:

Table 6.1

Respondent's Profile

Tanning units	93-94 sales <i>Rs in</i> (lacs)	% Export (93-94)	Year of Estt.	Total Employment
1.	1000	40	1937	189
2.	376	50	1968	56
3.	80	nil	1989	13
4.	82	nil	1987	12
5.	4160	45	1972	230

Footwear Manufacturing Units	93-94 sales. <i>Rs. in</i> (lacs)	% Export (93-94)	Year of Estt.	Total Employment
1.	216.77	100	1977	NA
2.	53	80	1989	21
3.	538	100	1989	85
4.	2760 *	100	1980	210

* includes sales of leather garments also.

Tanning units with Footwear Manufacturing	93-94 sales <i>Rs. in</i> (lacs)	% Export (93-94)	Year of Estt.	Total Employment
1.	NA	60	1939	NA
2.	2310 (for 15 months)	100	1980	178
3.	2500 (for 94-95)	90	1975	NA
4.	NA	100	1968	94

Total 22 firms were contacted for the study purpose, out of which 6 did not show any interest. In case of 3 firms which initially agreed to cooperate, due to busy schedule of owners, they could not be incorporated in the study.

Eleven out of 13 firms visited are involved in exports. All these 11 firms are registered with council for Leather exports. The footwear manufacturing firms surveyed, export almost 100% of their production indicating better returns in exports than in domestic market. There is no tannery (included in the sample), exporting more than 50% of the total production.

6.2 MANPOWER COMPOSITION

The data received from the firms surveyed regarding manpower composition (based on their skills and educational back ground) suggests the following important characteristics.

1. The small tanneries surveyed keep just 1-2 supervisors (generally a diploma holder from Government Leather Institute, Kanpur). One or two persons look after purchasing of raw material and rest are skilled and unskilled workers (8-9 in numbers), looking after leather processing. The owners mainly deal with buyers, visit raw hide market and keep close watch at operations in the unit. In case of bigger tanneries, the number ^{of supervisors} varies between 4 to 10. The average percentage of skilled manpower in total workforce as calculated is 31% which is much below the Indian average of 43% for the industry. (CLRI Survey Report, 1988).
2. In case of footwear units the percentage of skilled worker is just 29% while the percentage of semi-skilled workers is as high as 48%. With supervisors not more than 5% in any of the firm (The firm which is the largest in Kanpur operating in both Tanning and footwear however, has 38% skilled workers and the number of supervisors are more than 10).

The observation shows that the manpower composition in tanning industry in Kanpur is not in line with the Indian average for tanneries. This is perhaps due to less advanced nature of technology in use (Sec. 5.3.2). However, same cannot be commented about large units.

6.3 REASONS FOR ENTRY

The reasons cited by responding tanning units and tanning with footwear making units for entering in this business can be ranked as follows:

1. Traditional family business
2. Past experience in tanning or in raw hide marketing
3. Low setup cost
4. Easy availability of skilled workers and raw materials
5. High profit margin

In case of footwear units, the reasons can be ranked as

1. High profit margins
2. Low setup costs
3. Availability of skilled workers and raw material

In case of footwear manufacturing, the past experience, though seen as advantage, is not considered as important as in case of tanneries. This is evident from the fact that 2 out of 4 footwear units selected are owned by first generation entrepreneurs while there is no tannery owned by a person without past experience in this field.

The low setup cost makes it easier for small entrepreneurs who enter in this business. We can attribute this as an important reason for the presence of more than 150 small tanneries and about 100 small footwear manufacturers (in organised sector). Kanpur is chosen by all firms mainly due to the availability of required manpower, raw material and leather making as its traditional industry. Presence of technical institutions is not directly considered, by any of the respondents, as important reason for entry.

The reason for tanneries to enter into leather product manufacturing is mainly due to low entry barriers, high profit margin and easy access to raw material and their established relationship with foreign buyers.

6.4 MARKETING

None of the firms visited has foreign marketing tie-up. None of the exporting firms is using brand name. Two of the firms have planned to launch a campaign in metropolitans to promote their brands in domestic market. This is mainly to have better capacity utilization in situations when export orders in hand are not sufficient. Quality and delivery schedules are considered to be the most critical factors for successful exports, by all the respondents.

6.5 FINANCIAL

The sales data was taken for the last five years from 89-90 to 93-94. In case of three footwear manufactures, the average growth in sales for last 3 years comes out to be more than 20%, with average profit to sales ratio of 0.10. This is more than gross profit margin for BATA, which was 0.07 in 1993, the year when BATA made huge profits. One firm, however, is making negligible profits for the last 2 years mainly due to rejection of a supply last year. The profit to sales ratio in case of integrated units surveyed varies between 0.063 to 0.09. In case of tanneries, the variation in this ratio is from 0.07 to 0.10.

6.6 ANALYSIS OF TANNING INDUSTRY

The following analysis has been carried out based on framework for industry analysis as suggested by Porter (Chapter 3).

6.6.1 Barriers to Entry

(a) Economies of Scale

In tanning industry, scale economies in production, marketing, research and development are the least significant barriers to entry. This is evident from the fact that out of the total number of tanneries, more than 80% are small units operating at different scales from very small (15 to 20 hides per day) to large (800 hides per day) scale. In this industry, entry at large scale is seen as more risky and disadvantageous. This is due to industrial licensing policy of the government allowing large units to process leather from intermediate stage (wet blue stage) only, which is less value adding activity [Appendix D]. The other functions like sales force utilization, distribution etc. are not seen as significant at all. The survey has revealed that all tanneries with processing from wet blue leather onwards have integrated to produce different leather products, in order to have large value addition and thus increase profitability. The survey shows that, at small scale, firms depend on each other for operations at various stages as procuring all machines due to small capacity at early stages is uneconomical. A new entrant has to ensure easy access to other tanneries for these operations.

(b) Product Differentiation

The tanneries do not have any brand identification. However, some firms are recognised as good quality leather producer, helping them particularly in exports. This fact (due to great demand for finished leather in India and outside) does not put any significant entry barrier. One of the firms in the sample which started only in 89-90 had buyers at its doors, right from the

first day of production.

(c) Capital Requirement

The financial data collected from 8 firms (4 in Tanning and 4 in tanning with forward integration) and project profile [Appendix D] indicates very low capital requirements. This is also evident from the large number of tanneries in Kanpur. The expenditure on advertising, research and development etc. by all these firms was almost nil in comparison to their sales. Thus the capital requirement does not create any barrier to entry.

(d) Switching Costs

The switching cost is not a barrier to entry in this industry. The switching costs do not include any employee retraining cost, cost of new equipments, etc.

(e) Access to Distribution Channel

With great demand for finished and semifinished leather and presence of a large number of leather goods manufacturers within Kanpur and at other places, the access to distribution channel is not at all difficult. In fact, the consumer of leather, themselves place orders with tanners and tanners are not to try for it. In case of exports also the access to buyers and their agents is not found to be difficult provided the exporters meet quality standards.

(f) Cost Disadvantages Independent of Scale

- The technology in tanning is easily accessible with most of the machines and know-how easily available in India. The situation is however different for large scale as they depend on imports for certain machines.

- Access to raw material is definitely a strong barrier, particularly, in case of an entrant with no past experience (Sec. 6.3). Due to close relationship among tanneries and raw hide merchants, a new entrant is looked as persona non grata at raw hide market. (This fact was disclosed by few raw hide merchants of Kanpur and the tanners also agree to this).
- Jajmau and Unnao are the two favourable locations for this business. The presence of distributors/agents of leather chemicals (who also help in solving problems in processing), job work facility, presence of Central Leather Research Institute are few of the reasons to this.

The quality of raw hides/skins plays a very crucial role in success of a tannery. Since the quality of raw hide cannot be gauged by any machine or instrument, experience in raw hide market plays a very critical role. This creates a very high entry barrier for an unexperienced entrepreneur.

(g) Government Policy

- The pollution Control policy has made it compulsory for a tannery to have a primary as well as a secondary treatment plant (Appendix G). The cost of primary treatment varies between Rs.0.5 to Rs. 4 lakhs depending upon the capacity to be installed. However, the cost of the secondary treatment plant comes to not less than Rs. 20 lakhs for any capacity. This has forced the tanners to have combined Effluent Treatment Plant in Unnao (under construction) and at Jajmau with financial help from the government. This creates a big cost disadvantage for new entrants coming at a place other

than Jajmau and Unnao.

The government industrial policy controls the entry through licensing requirements. The type of unit falling under licensing conditions can process leather only from wet blue stage to finished leather. The interview conducted in the 8 units revealed the following facts:

- Since value addition is more in tanning leather from raw stage, than from wet blue stage, [Appendix D], the large scale business becomes unattractive.
- The business at this scale becomes difficult as it is largely dependent on small tanneries for supply of wet blue leather, who can always go for forward integration, thus making the raw material situation even worse.
- The existing tanners (particularly those small scale units which are very close to the licensing limit) have hesitation for modernisation and expansion. (Instead they prefer opening a new tanning unit in their relative's name). The tanners operating at lower scale, however, were indifferent to the issue, with two of them not even knowing about this policy.
- The normal life of machines, used for tanning is claimed to be around 25-30 years. This was verified from one of the leading tanneries, which is in operation since 1930s. This firm imported machines around 25 years back, which are still performing upto satisfactory level.

The government allows imports of second hand machinery if these are less than 7 years old. With closing down of a number of tanneries in developed countries, second hand machines are easily available at throw away prices. This

policy of the government is seen as a barrier in obtaining these machines.

6.6.2 Bargaining Power of Buyers

The buyers to this industry are the manufacturers of various leather products in organised as well as in unorganised sector.

The buyers to this industry are mainly of two types. The first type of buyers are very large in number, purchasing very small quantities. These buyers are mainly from unorganised sector with very small manufacturing capacity generally without using any machines. The leather with poor quality is generally consumed by these buyers. The second category belongs to organised sector with semi to fully mechanised plants. These buyers purchase in comparatively larger volumes but not significant enough to give them high bargaining power. In fact, due to shortage of finished leather (as demand for finished leather directly depends upon demand for leather goods, which is growing at a rate of 20 -25% per year) the bargaining power of buyers is very low.

In leather products, leather alone costs about 50% to 60% of the total cost of production (Table 2.5). Thus any increase in price of leather affects the production cost of buyers. This affects the buyers serving domestic market more (as domestic market is highly price sensitive) than those involved in exports.

The government allows duty free imports of finished leather to solve the problem of shortage of finished leather. Imports being costlier, give option only to buyers operating at large scale as they can purchase in large quantities.

The industry produces different types of leather from hides and skins of different animals. The product is also differentiated

by the technology used i.e. vegetable tanning and chrome tanning (Appendix 8). The units using vegetable tanning are few in number (20% in total) as most of the units have adopted chrome tanning, which is less time consuming and provides higher value addition. Till recently, the manufacturers of vegetable tanned leather were at a disadvantage due to the presence of a large number of producers and few buyers. The bargaining power, however is changing in favour of vegetable tanned leather makers due to their reduced number and increase in demand. In case of chrome tanning units the bargaining power of buyers is low mainly due to huge demand.

The profitability of leather goods manufacturers (i.e. buyers) involved in exports is higher than those in domestic market. Any increase in price of finished leather, influences profitability in both the cases (though more in case of second type buyers). This price sensitivity of buyers, however, gives no bargaining power to them.

Tanning is a very different activity in comparison to leather products manufacturing. This fact does not encourage buyers for backward integration (Also see Sec. 6.3). The buyers (footwear manufacturers) interviewed did not mention backward integration as part of their future plans.

The industry product is very important for the quality of the buyer's product, as quality is the basis for survival, particularly for exporters. This further reduces the bargaining power of the buyers.

6.6.3 Bargaining Power of Suppliers

Raw hides/skins and various tanning chemicals are the main

raw materials for the industry. The supply of chemicals is made by dealers/agents of various chemical manufacturers like colour chem. a subsidiary of Hoechst, Associated Chemicals, etc. The suppliers of raw hides/skins are the merchants operating at Raw hide markets.

The selling of raw hides is highly concentrated. Raw hides and skins are supplied to big raw hide markets by contractors (with licence for collecting raw hides) through agents of big market. The trading is done from these markets daily (Secs. 5.2 and 5.3). The presence, of large number of buyers enables raw hide suppliers exerting large influence in price, quantity and terms for payment. This is also evident from the fact that price of raw hides and skins has increased by more than 20 times in the last 25 years. The following data shows that the prices have been doubled in the last two years.

Table 6.2

Average Price of Hides in UP
(Figures in Rupees)

Items	1982	1986	1992	1994-95
Buffalo	150	205	325	800
Buffalo Young	45	75	225	450
Cow	125	165	275	600
Cow Young	40	60	110	250

Source: Raw Hide Market, Kanpur

There is no substitute to hides and skins for this industry. On the same line, there is no buyer of hides and skins other than this industry. Thus the two are equally dependent on each other.

This fact, however, does not balance bargaining power of suppliers and the industry. This is mainly due to a huge demand for finished leather (the main product of the industry)..

The switching cost in case of suppliers is insignificant. For the industry as buyer also, it does not play an important role.

The discussion with members of Raw Hide Merchant's Association at Kanpur revealed the following points :

1. Most of the tannery owners have earlier operated as suppliers of raw hides. This indicates that suppliers group poses a credible threat of forward integration.
2. Till the 80's, suppliers were to wait even for 2 - 3 months, for selling hides to the buyers ((mainly BATA). Now the situation is totally reversed and hides/skins are sold even before a truck full reaches the market. Buyers are ready to pay even for the defective hides.

The above two facts clearly show the shift in bargaining power favouring suppliers in the last 20 years.

6.6.4 Intensity of Rivalry

The industry does not have any intense rivalry among firms for market share. This is mainly due to the high demand and fast industry growth [Tables 2.9 and 5.2]. In case of foreign competitors in domestic market (in the form of imports) as well as in international market, the nature of competition is the same.

The expenditure pattern of respondents shows negligible portion as advertisement cost. This exhibits the absence of advertisement battle in this industry.

The survey data on capacity utilization shows that average capacity utilization for large tanneries is not more than 60 to

65%. This is mainly due to a shortage of good quality hides. In case of access to raw hide source, the industry faces 'bitter' competition. The small tanneries, with their relatives operating in raw hide market (Sec. 6.6.1 f), generally are at an advantage. In case of big tanneries with large capacity, the shortage of raw material is seen as the biggest problem and they blame mushrooming of small tanneries for this.

6.7 ANALYSIS OF FOOTWEAR INDUSTRY

6.7.1 Barriers to Entry

(a) Economies of Scale

The minimum economic size for footwear units is 1000 pairs per day and in case of shoe uppers it comes out to be 3000 pairs per day. [Committee Report on Footwear, Ministry of Commerce].

The current Industrial Policy puts a restriction through licensing policy on units with investment more than Rs.60 lakhs on plant and machinery. The above said capacity needs an investment more than this limit, forcing new entrants to come at small scale and thus puts them at a cost disadvantage.

The scale economies in marketing, distribution, inventory holding, purchasing and designing are also the key barriers to entry in this industry. The survey reveals that large scale manufacturers have diversified in other leather products manufacturing also, helping them to use the marketing, purchasing and inventory holding costs jointly. Similarly, The manufacturers of shoe uppers have started making full shoes also, which results in better capacity utilization and low inventory levels.

(b) Product Differentiation

The manufacturers in Kanpur do not have any brand

identification in the world market, though buyer loyalties are present to some extent. Out of 8 units surveyed, 6 of them have almost same buyers for the last 4 - 5 years, indicating their trust on these firm's quality, delivery schedule, etc. This fact is however not seen as a barrier, simply because of great demand in the world market, where same buyer sources from a number of different firms.

(c) Capital Requirement

The financial data of firms surveyed (including cost of machines, etc.) and project profile available with PICUP [Appendix D] on leather shoe and shoe upper reveals that capital requirements are not high in comparison to the other industries. A unit with a capacity of even 2.0 lakhs. shoes per year (though it is not the most economic capacity) needs investment on plant and machinery of less than Rs.60 lakhs (thus can remain as small scale unit). The expenditure of exporting units on advertisement and R & D is also very small. [Low expenditure on advertisement is due to absence of brand name, the only expenditure comes in the form of participation in exhibitions and in sending trade samples].

(d) Switching Cost

Switching cost for a buyer is not high, due to presence of number of manufacturers in developing countries operating in world trade. However, for a firm, switching costs are higher including cost of free trade samples, foreign trips to negotiate with buyers, product redesign cost, etc. For the firms dealing with agents of the buyers, operating in India, switching costs are low. Thus switching cost, though present, is not seen as a significant barrier. In domestic market, switching cost does not put any

effect on barriers to entry.

(e) Access to Distribution Channel

In case of new entrants with no past experience in this field, the proper access to distribution channel is difficult as they have to convince a buyer about quality and timely delivery. In case of all the four firms (with forward integration from tanning to footwear) surveyed, their links as exporter of finished leather were of the greatest help. In case of 4 footwear units surveyed their experiences are mixed. One entrepreneur with no past experience is struggling even after 3 years in operation. Even the domestic market which offers a stiff competition and retailers asking for huge fee, has not helped him. It survives mainly by doing job work for other exporters. But in case of the other three with some experience, the access to distribution channel was made without much difficulty. This indicates access to distribution channel as a great barrier in case of first generation entrepreneurs, however past experience and contacts lower the barriers significantly.

In case of domestic market for new entrants, barriers are high, as a new firm needs to persuade the distributors to accept the product by giving more commission, advertisement allowance etc., thus reducing profits. It also requires brand image and its own retail channel as existing retailers, in most of the cases have exclusive relationship with manufacturers and are identified with a particular brand.

(f) Cost Disadvantages Independent of Scale

- The technological knowhow, design etc. are not seen as barriers to entry, as these are easily accessible.

- Access to finished leather and other components of desired quality (these are to be imported) is seen as a problem in the beginning, particularly for a firm with no past experience in leather industry.
- The footwear industry has developed only at those locations where tanneries and other supporting industries are located. This helps in procuring raw material, skilled labour and agents and buyers also operate in these locations.
- The various government policies favour export oriented footwear units. The government allows import of all capital goods and other materials required without any import duty. There is no sales tax and excise charged on goods exported, also the profits derived from exports business are totally exempt from taxation. These facilities provided by the government policies reduce the barriers to entry. But the footwear industry is reserved for small scale under industrial licensing policy (Sec. 6.7.1 a). This restricts the entry in medium to large scale sector as the policy puts a condition for exporting 75% of the total production (only 25% is allowed to be sold in the domestic market). This condition of exports makes new entrant feel uncomfortable as the access to domestic market is perceived as a safety net in case of adverse conditions in world market. It was experienced by two footwear manufacturers who were interviewed, at the time when the USSR was disintegrated as they were largely dependent on

buyers from USSR). This policy thus causes hesitation for new entrants to come at large scale.

The policy also acts as a barrier to entry for foreign investment in the form of joint ventures. The foreign companies perceive India as one of the most lucrative markets in the world. The fact that their access to this market will be restricted, prevents them from entering in this field.

The reservation policy is also seen as an obstacle by almost all successful exporters as this puts restriction (in terms of licence) on their expansion programme.

6.7.2 Bargaining Power of Buyers

The main buyers to the industry are big retailers and footwear manufacturers with well recognised brands in the international market. These manufacturers, due to high wage level in their countries have stopped (or reduced) producing. They source shoe uppers and/or full shoes from manufacturers in developing countries and sell them under their brand name.

The survey has revealed that in case of three firms (out of 8 firms surveyed, only 5 of them agreed to share this information) there were less than 4 buyers in the year 1993-94 and for the remaining 2 respondents the number of buyers was more than 4. This clearly shows that the buyers' group is highly concentrated in comparison to manufacturing firms. These buyers place orders in huge quantities significantly influencing capacity utilization of firms.

The profitability of buyers is very high, as buyers are able to sell footwear at rates 2 - 3 times higher than purchase price.

Highly profitable buyers are generally less price sensitive (Porter, 1980). But this is not so in case of footwear buyers. This is perhaps due to the fact that there are a large number of manufactures mainly in developing countries producing quality product at a low price, giving buyers a wider choice.

The switching cost for buyers is very low. The product is perceived as a commodity and thus the choice by the buyers is largely based on price, quality and timely delivery, etc. In case of manufactures the switching cost is comparatively higher, providing strong bargaining power to buyers (Sec. 6.7.1 d). The buyers in this case put no threat of backward integration (in fact the reason which makes them buyers is their inability to produce quality product at affordable cost due to high wage levels in their countries). This, however, does not reduce their bargaining power simply because they still hold the brand names, and marketing network.

Buyers in world leather market keep full information about demand, actual market price, supplier's cost, etc. providing them greater bargaining power. Buyers keep information about changes in fashion, customers' preference, etc, and based on this, they provide designs to manufacturers. They also provide required components in most of the cases, thus keeping the manufacturers, simply as jobbers. When buyers are the retailers or wholesalers, they also enjoy bargaining power due to wider choice and their role in influencing consumer's purchasing decision.

In case of domestic market, buyers can be retailers, wholesalers or direct consumers. The brand name, price and quality all are critical in domestic market. The price remains the most

critical success factor as the domestic market in India is highly price sensitive. No manufacturer in Kanpur, produces footwear with recognised brands. The big manufacturers (e.g., Super House) have their own retail hops in big cities mainly to cater to the high end market.

Small manufacturers mainly cater the domestic market and to some extent take job works for exporters. In this case also bargaining power of retailers and wholesalers remain quite high.

6.7.3 Competition and Intensity of Rivalry

The industry has witnessed a tremendous growth in the last 10 - 15 years and projections strongly indicate the trend to continue (Tables 2.9 and 5.2).

Exporters have to face, stiff competition from countries like China, Brazil, Taiwan, etc. apart from other manufacturers within the country. India, with an image of producer of low quality footwear, competes mainly with manufacturers from developing countries, mainly China, in low price category. Though India is able to produce shoes at low cost, China due to huge production base has captured 20% of the world market. Since both manufacturers of India and China do not have brand names (even S.Korea and Taiwan are not having any popular brands) and mainly work as jobber for established brands in developed countries, the quality, price & timely delivery along with volume play a significant role. India, with very few large volume producers, is at a disadvantage. Presence of joint ventures has also helped China in a big way. The lack of switching costs for buyers makes the competition tougher.

The competition among Indian manufacturers as well as in

Kanpur, is not much. Large number of buyers have switched to India in the last few years. The all exporting firms surveyed, do not consider other manufacturers as their rivals. They, however, try to maintain secrecy about their buyers mainly due to the fear that a buyer may switch to another firm.

The competition in the domestic market is mainly of 'price competition' type with strong brand loyalty. Till recently, BATA, the market leader in leather footwear was the most trusted brand. However, due to entry of big manufacturers like Liberty, Action, etc. and further entering of exporting firms like Wasson, Woodland, MESCO, etc. have raised the competition. This year witnessed BATA's profit going down from Rs.19 cr. to mere Rs.1 crore. The manufacturers in Kanpur, though have their presence in the domestic market but there is no significant brand image of any one of these producers.

6.8 GROWTH CONSTRAINTS

Various growth constraints as sited by firms interviewed are listed below:

1. The shortage of good quality raw material (raw hides and skins for tanneries) and finished leather for footwear manufacturer) forcing lower capacity utilization. This has also caused more than 100 percent increase in price of raw hides in the last one year.
2. Lack of cooperation from various government bodies.
3. High level dependence on imports for machines and components, due to nonavailability of components and machines of desired quality standards within the country.
4. Five percent export duty (now diverted as industry

development fund as per 1995 budget) is seen as a discouraging factor by all exporters of finished leather. It is however seen as a welcome decision by footwear manufacturers.

5. Three out of four integrated firms and 2 footwear manufacturers stated the limit of Rs. 60 lakhs under licensing policy is the main constraints for their future plans of capacity enhancement.
6. Sudden changes in government policies (e.g. 94 budget abolished counter veiling duty (CVD) on imports of leather chemicals and was reimposed again after 6 months, sudden increase in duty on Wattle extract, duty drawback which was suddenly reduced and lately it has been raised slightly, etc.) are seen by all (except the 2 small tanneries, as their business is not affected due to all this) as a major constraint for their planning in advance.
7. As per one footwear manufacturer, the traditional firms (tanneries) mainly family concerns lack dynamism and aggressiveness and are very conservative. This along with low education qualification of owners are the main reasons for their continuation with traditional leather processing technology. This causes poor quality of finished leather directly affecting the footwear manufacturers.
8. More than 70 percent of the exporters put poor quality image of Indian exporters, as main constraint in winning buyer's confidence.
9. Lack of designing facility, information about latest fashion in importing countries etc. are viewed as discouraging

factors by footwear exporters.

10. Lack of transporting (air) facilities, in Kanpur for importing countries, is seen as a problem in meeting tight delivery schedules. The exporters largely depend on Delhi for sending their supply.

6.9 FUTURE PLANS

Response regarding the overall goal and future plans of firms seem to emphasise a long term presence in the global market. All tanneries expressed modernisation of existing plant and forward integration as their plan for next 2-3 years. Footwear manufacturers mentioned modernisation of existing facilities, significant increase in capacity, diversification in leather goods (particularly in leather garments) and to excel in world market as their future plan. Only one footwear units mentioned promotion of its own brand in international market as its future goal. Similarly in case of tanneries only 2 firms (operating at small level) expressed the desire for increasing capacity. This is because of low capacity utilization in large tanneries which is mainly due to shortage of raw hides of good quality.

6.10 OTHER ISSUES RELATING GOVERNMENT POLICIES

6.10.1 Raw Material

There is a gap between the availability of raw material (i.e. raw hides and skins for tanneries and finished leather for footwear and other leather product manufacturer) and demand for the same. The survey results clearly confirm this deficit (Sec. 2.1.1 a). The sharp increase in price of raw hides and finished leather (Table 6.1) also indicate this.

The government policy for leather industry as mentioned below clearly indicate control of government on this important raw material for the industry.

- Licensing system for raw hides/skins collection
- Ban on exports of semi finished leather
- Duty free imports of raw hides, finished and semi-finished leather.
- Duty structure for leather chemicals and other components
- 5 percent duty on exports of finished leather.

The licence requirement and heavy fee for raw hide collection has not been good for the industry. Monopoly of contractors (due to this policy) has forced number of flayers to search for some other jobs, making flayers a rare community (Sec.5.2). The government has repeatedly assured to improve the situation at this level but with no results. Recently, due to a lot of pressure from industry, a number of steps are being taken to improve the situation. National Leather Development Programme and Leather Technology Mission [Appendix A] aim at solving this problem by providing 4 model carcass utilization centre, raw hide mundi at Hapur, wet blue mundi near Kanpur and modern slaughter houses, etc.

The 5 percent duty on export of finished leather aims at discouraging its exports. This is clear from the declining trends of export of finished leather (Table 2.9). This decrease is also due to the fact that tanneries are going for forward integration in manufacturing more value added leather products.

The import policy on raw material is industry friendly for

leather products manufacturers, which allows them to import at international prices. But import adds to down time for making the product and selling it back in the international market. This along with the fact that imports in small quantity are a costly affair which makes the imports less attractive, particularly for small scale units. In case of chemicals, the import duty structure does not influence the industry significantly as more than 90 percent chemicals are manufactured within the country. However, for the chemicals which are imported, the duty structure lacks stability. The removal of counter veiling duty in 1994 on leather chemicals was seen as a great relief for the industry. But it was reimposed suddenly after 6 months. Similarly, the duty on wattle extract has been raised. Apart from these two cases, the industry feels comfortable regarding duty structure.

6.10.2 Supporting Industries

The survey shows that in case of 11 respondents, the percentage of machines imported is quite high, between 40% to 75%.

Similarly, in case of components used in footwear (sole, lasts, eyelets, etc.) the import is as high as 90%. We can attribute this as an indicator for the absence of strong supporting industry within the country. In case of chemical industry, however, the situation is much better. Here, it is interesting to note that all the countries like Italy, S. Korea, Taiwan and even China, who are the market leaders in this industry have fully developed supporting industry. In Italy, the number of footwear component manufacturers are almost the same as footwear manufacturers. A comparison with the Italian footwear cluster, (Appendix F) indicates that this industry even at country level is

highly underdeveloped in the following area:

- footwear machinery
- shoe lasts
- Design service (footwear CAD system, etc.)
- Injection molding machinery
- Molds,
- Leather working machinery

The industry in India heavily depends on imports for these supporting facilities and thus is at a disadvantage in comparison to its competitors.

In case of Kanpur, there is no manufacturer of machineries used for the industry. the footwear component manufacturing is also absent. The industry depends on agents and foreign buyers for supply of components. There are few manufacturers of chemicals in Kanpur but specialised leather chemicals are available mainly through dealers of various Indian manufacturers.

The present industrial policy, import policy relating supporting industries and import duty on capital goods, components, chemicals, spares and raw material for components have seen marked changes in the post liberalisation period. These reductions on duty structures for the industry is quite impressive but still higher in comparison to its competitors in the world market. (Appendix E). The reservation policy of tanning and leather product manufacturing for small scale sector allows large capacities for footwear and other leather products either under licensing policy or as 100 percent export oriented units and units in export processing zones. These export oriented units and custom-bonded units are allowed to import all capital goods,

spares, components etc. without any import duty. The large units thus get good quality capital goods, components, etc. at international prices. In case of other units also, the import duty are low and components for footwear are supplied by buyers. These are the important reason for low demand of capital goods, components etc. in Indian market as large manufacturers prefer imports of capital goods, etc. This along with licence requirement for producing number of components (PU soles, molded rubber soles, heels, tacks and eyelets) has been the main reason for very slow growth of supporting industries (except for leather chemicals) in the country.

6.10.3 Joint Ventures and Foreign Investments

The total complexion of the industry in India as of today, is that of a job work industry. There are very few joint ventures whether in production or in marketing (no unit in Kanpur has such an arrangement). As a consequence the order position for the industry evolves around placement of a few thousand pairs of orders and its delivery. There are very few units who have a tie up for the entire lifting of their production.

The success of leather industry in countries like Taiwan and S. Korea in late seventies and now in case of China, is mainly due to encouraging government policies of these countries for joint ventures. The present government policy on foreign investment allows investment upto 51% for leather footwear, components, capital goods for leather and other related industries. This policy however, puts a licensing condition for 100 percent exports of leather products, which is seen as a hurdle by foreign international players. This along with other reasons like

frequent changes in policies, political uncertainty, high tax rates, etc. have resulted in very few joint ventures coming in India. Here an interesting example can be given about how government policies change in India. In August 90, an order for phasing out the exports of finished leather was issued in order to encourage production of value added leather products. In March 1991, a notification was issued, postponing this decision by a year. Finally, a decision to continue with exports of finished leather with 5% export duty was taken. The entry of Reebok and few more in footwear manufacturing last year, however, indicates improvement in the situation.

The high interest cost in India puts the leather industry at a competitive disadvantageous position, as is true for other industries also. The cost of funds in competing countries like Indonesia, S. Korea, China etc. is very low in comparison to existing rates of interest prevailing in indian banking system. The same is true in case of interest rates for pre-shipment/post-shipment credit. (Appendix E).

6.11 POLLUTION CONTROL POLICY

"The adverse effect on the public at large which is likely to ensure by discharging of trade effluents from tanneries to Ganga would be immense and will outweigh any inconvenience that would be caused to the management and the labour employed on account of its closure." This was the order given by supreme court dated 22 Sept. 87 in the writ petition (Civil) No. (S) 3727 of 1985 by Sri R.C. Mehta vs. Union of India and others. The court further issued orders for 29 tanneries to be closed down by Oct. 1, 1987, till the time they start primary treatment plant 40 tanneries were given March 31, 1988 as a deadline to start primary treatment plant. The Supreme Court also ordered the tanneries to have a secondary treatment plant.

The next two years witnessed a lot of changes in the tanning industry in Kanpur. The units which failed to put primary plant within the given deadline were threatened by government bodies (mainly through UP Pollution Control Board) by taking extreme steps such as stopping of water and electricity supply, putting heavy fines, etc. There were intervention from political parties also, perhaps due to the fact that tanneries are dominated by a particular community and also that they may be the most influential amongst the local industrialists. By Oct. 16, 1989, the status was as follows (as studied by a Committee setup of Supreme Court):

Tanneries with Primary Treatment Plant	89
(under construction)	36
Units closed	9
Tanneries not submitted their proposal	-

for setting up of plants

36

TOTAL:

170

[Source: UP Pollution Control Board.]

Tanneries in Kanpur can be divided into three categories based on their processing capacity.

Table 6.3

Installed Capacity	No. of Tanneries	Approximate discharge (in million litre per day)
Large scale > 250 hides per day	12	3.0
Medium Scale 60-250 hides/day	61	3.0
Small Scale < 60 hides/day	97	2.0
TOTAL	170	8.0

[Source: Report from committee constituted by the Supreme Court.]

Out of 170 tanneries in Kanpur, 167 are located at Jajmau, near Ganga and rest in other parts of Kanpur. The nature of effluent from tanneries, prescribed standards etc. are given in Appendix G For setting up of Combined Effluent Treatment Plant, (i.e. Secondary Treatment Plant), UP Jal Nigam estimated a cost of Rs. 2.50 crores which was later revised to Rs. 4.0 crores [Source: letter to Chief Minister, UP, Small Tanneries Association]. Finally in 1990, the cost of secondary treatment plant was worked out to be Rs. 7 cr. and tanneries were ordered to deposit Rs. 1.22 cr. (17.5% of total cost). This plant was to be completed as Indo-Dutch project using UASB (Upflow Anerobic Sludge Blanket) technology in 2 1/2 years, starting from March, 1990. The reason for increase in cost, as one officer at Ganga Action Plan puts, was inclusion of cost of conveyance system and few other charges

made in specifications and civil drawings. UP Jan Nigam was made the implementing authority with Nagar Mahapalika, tanneries, Pollution control Board and Ganga Action Plan involved as other members .

The project as in 1995, is under commissioning stage. Thus the delay has been by more than 2 years. The cost of project finally has come to a figure of Rs. 21.54 cr. which is more than 3 times its estimated cost.

Breakup of Project Cost

The following table gives the breakup of project cost shared by concerned members:

Table 6.4

	% Breakup	Estimated in 1990 (Rs. in cr.)	As Revised (Rs. in cr.)
1. Ganga Project Directorate (GPD), Central Government	65	4.54	14.00
2. State Government (through UP Jal Nigam)	17.5	1.23	3.77
3. Tanneries	17.5	1.23	3.77*
TOTAL:	100.00	7.00	21.54

* To be shared by 167 tanneries based on their effluent generated.

The tanneries by the end of 1991 deposited their share of Rs. 1.225 cr. (based on 17.5% of 7 crores.)

The whole issue brings out certain very interesting points:

1. The use of UASB technology was decided by government bodies, without any consultation with the tannery owners.
2. The plant is designed for 36 million litre per day capacity.

As per Ganga Action Plan, the effluent from tanneries is 1/4 th of the total capacity i.e. 9 mld (the Tanner's Association

claims it to be not more than 6 mld). Rest of 27 mld comes from sewage system of Nagar Mahapalika.

The tanners claim that they should pay their share only for the tanneries effluent, and not for the rest 27 mld.

3. The government is forcing tanneries to pay now 17.5% of the revised total cost of Rs. 21.54 cr. "The delay and cost escalation is not due to tanneries, so they cannot be asked to pay for the fault of somebody else", says a member of Small Tanners Association.
4. The estimated cost of operation and maintenance (as per UP Jal Nigam) is Rs. 159.78 lakhs per year, for which tanneries are to pay Rs. 119.91 lacs (about 75% of total) while Nagar Mahapalika will pay Rs. 39.87 (about 25% of total cost). The plant will be looked after by UP Jal Nigam.
5. Tanneries are to run primary treatment plants, they are to pay sewerage tax and water tax, apart from their contribution for operation and maintenance of secondary treatment plant.
6. The tannery owners interviewed also stated that they were being harassed by Pollution Board Officers, as they force them to run their primary plant for 24 hours, while it was technically not required. The officers at Pollution Control Board, however, say that tanneries do not run the plant even for 1 hour in a day.

Combined Effluent Treatment Plant at Unnao

Unnao, on the other side of river Ganga, has about 27 tanneries. As per the Supreme Court decision for installing a secondary treatment plant, 20 tanneries (big and small) decided to have a combined treatment plant. Having a separate secondary

Treatment Plant even for a small tanneries costs more than Rs. 20 lakhs. The combined plant thus becomes very economical for tanneries.

The government of India has a policy to provide financial aid, in case 5 units (or more) combine to make a group for a Combined Treatment Plant. In such cases, government provides upto Rs. 1 crore with state and central government contributing 50% of this amount each.

The group of these 20 tanneries (now 19) have given the project to a private company. Envirad Ltd., expert in solving pollution control problems.

Table 6.5
Contribution from Different Parties

	Contribution (% of total cost)	Contribution in Rs. (in lakhs)
Central Government	25	48.5
State Government	25	48.5
World Bank (Soft loan)	30	58.5
Tanneries	20	39.5
TOTAL		195

The project with a capacity of 2.15 mld is under direct supervision of members. the plant uses aerobic technology. The technology is to meet the same norms as in case of UASB based plant at Jajmau. All members have already installed their primary plants. Each member will pay at the rate of Rs. 5 per kilo litre per day as operational cost. The plant will be run by the same Company Envirad Ltd.

The plant under construction clearly shows that tanners have

learnt their lesson from the experience of Jajmau plant.

As per pollution control norms the tanneries following chrome tanning are to install chrome Recovery plant, as chromium has proved to be a great pollutant. The Central Leather Research Institute has offered technology for Chrome Recovery Plant (CRP) which helps in reclaiming chromium for reuse. the technology claims to recover cost in 2-3 years of operation. There are about 140 tanneries in Kanpur using chrome tanning but there are only 6 units having CRP. The cost of CRP varies between Rs. 3 lakhs to Rs. 8 lakhs depending on the capacity of units.

CHAPTER 7

CONCLUSIONS

The objective of the present work was to study the current status and structure of the leather industry in Kanpur. The study also attempted to understand the impact of various government policies on the industry. The government policies included in the study were industrial licensing policy, import-export policy, pollution control policy and foreign investment policy. The study covered the two most important segments of the industry - tanning and footwear production. The study was based on a survey of thirteen units through structured interviews. The units included various groups in the industry: tanneries, footwear units, tannery and footwear combined, and export oriented units. The findings of the study can be summarised as follows:

7.1 FINDINGS

1. The analysis of the data collected suggests that both the footwear and tanning sectors are highly fragmented with the presence of a large number of small units. The analysis also indicates that share of the footwear sector is increasing rapidly in the total industry exports.
2. In case of both the tanning and footwear industries, the economies of scale, the capital requirement, the technology and switching costs do not put a significant barrier to entry. However, access to raw material source and past experience in tanning and access to distribution channel in case of footwear are found to be very important barriers to entry. The pollution

control policy (particularly the necessity of secondary treatment plant) puts a high barrier to entry, particularly in case a tannery is to be located outside the Jajmau-Unnao belt, where the tanneries are at present located.

3. Tanneries dominate the whole industry, as the supplier of finished leather. The footwear sector, though, has no significant bargaining power as buyer to tanneries and also as supplier to importers, is still able to perform well. This is simply because of increasing demand for leather footwear in the developed countries.
4. The raw hide (the basic raw material for the industry) collection has been a neglected activity, constraining the whole industry. The government policy of auctioning the right of raw hide collection has not helped the situation.
5. There is no footwear manufacturers in Kanpur with established brand name in international or domestic market. These manufacturers, thus work as jobbers for the importers. This may lead to a problem in future, as competition from developing countries is increasing. In case of domestic market (which is seen as safety net by exporters of different industries) also, selling without brand name, particularly at high price segment, is very difficult.
6. The analysis shows that most of the tanners in Kanpur are going for forward integration. But in case of footwear manufacturers, the inclination for backward integration is almost absent, in spite of the fact that they face shortage of finished leather.
7. The licensing policy for the industry is seen as an obstacle for the modernisation and expansion of the small units. This also

puts a barrier to entry at large scale.

8. The import-export policy provides a lot of facilities to export oriented units. This policy however, has not been able to attract foreign investors due to restriction on entry to domestic market through licensing.
9. The declining growth rate of exports of finished leather and faster growth rate of footwear indicates that exports of value added products is increasing.

7.2 TENTATIVE SUGGESTIONS

1. The government should consider some changes in the industrial policy so that units, at least with minimum economic size, can be allowed without any licensing requirements.
2. The government should immediately make plans to improve raw hide collection activity. The overall improvement can be made if government comes out with a clear 'live stock policy.'
3. The pollution control policy mainly influences tanneries, which makes running of primary treatment plant and secondary treatment plant compulsory to meet the standards, for each tannery. The survey indicates that implementation of the policy has not been done in the best way. The initial resistance from tanneries, the use of new technology (UASB) for secondary treatment plant, no involvement of tanners at construction stage, wrong estimates of project cost and perhaps lack of sincerity of implementing authority were the main reasons for this. The government in future should play a role of catalyst only by providing financial assistance and rest of the matters, like choosing technology, construction and running of plant etc. can be left to the tanners. Instead, the government should concentrate more on the

supervision of pollution control norms.

4. The manufacturers should try a consortium approach for developing their own chain of retailers in larger markets, like US, Germany, etc. It will also help them in promoting their own brands. This also comes through the success of such joint efforts as the leather blitz programme.
5. The government should ensure proper data collection for the industry in a more focussed way. The data collection and its updating needs to be done more sincerely. A lot of difficulties were faced in collecting data about the industry in Kanpur. This is also evident from the fact ^{that} data with different institutions and government offices regarding number of tanneries in Kanpur varies from 147 to 200 (including Unnao). Central Leather Research Institute even today quotes 1083 as the number of tanners in India, which it estimated in 1987. 6. Another important area where government should focus is in its role of information disseminator. It should support the industry by providing them with information about foreign markets, products, changes in fashions, etc. The Council for Leather Exports can take care of this task.

7.3 LIMITATIONS OF THE STUDY

Taking only tanning and footwear sector of the leather industry, for the study is the major limitation. At Kanpur level, a study on leather goods, particularly saddlery and harness manufacturing is also important, as Kanpur is the only Centre of saddlery and harness in India. This could not be taken for study mainly due to lack of time. This sector can be taken up for study, in future.

Another limitation, which is a part of this kind of study, is the

method of data collection which depends mainly on survey method (taking interviews, etc.) which involves the risk of biased views influencing the direction of findings and conclusions.

APPENDIX A

GOVERNMENT POLICIES FOR THE LEATHER INDUSTRY

INDUSTRIAL LICENSING POLICY

The policy framework governing the leather industry in the country has been designed, considering the leather industry as a traditional rural industry providing employment to a large number of people. The Government's fear that modernisation and mechanisation of this industry would result in large scale displacement of artisans and people belonging to weaker sections of society engaged in this industry has resulted in reserving the leather industry for small scale sector through industrial policy.

The present industrial policy reserves the leather industry for small scale sector with the following framework.

1. No industrial licence required if investment in plant and machinery is less than Rs.60 lacs.
2. In case of tanners, footwear, leather outer wear, leather goods/accessories, if investment exceeds Rs.60 lacs on plant and machinery an industrial licence is compulsory and approval is required to be obtained from Secretariat for Industrial Approval (SIA), Udyog Bhavan, New Delhi.
3. No industrial licence is required for footwear components except for PU soles, molded rubber soles, heels, tacks, and eyelets.
4. No industrial licence is needed in case of components for other products.

5. No industrial licence is required for chemicals for leather industry, capital goods for leather, footwear and products.

TERMS & CONDITIONS OF INDUSTRIAL LICENCE:

1. In tanning and finishing the policy permits licensing of new units and substantial expansion of existing units in any location from semi-processed leather only. (Thus reserving vegetable tanning and chrome tanning of raw hides and skins upto the stage of semi tanned leathers, exclusively for small scale sector).
2. In case of all leather products (including footwear) licence can be granted to new units or to existing units for expansion, only if they undertake to export 75% of their production from the third year of commercial operation.

EXPORT AND IMPORT POLICY

The policy with the objective of accelerating the country's transition to an internationally oriented economy provides the following framework for leather industry :

1. As per the negative list of exports, the exports of raw hides/skins and semi processed hides and skins are banned.
2. The exports of chemicals, capital goods footwear and components, leather garments, saddlery and harness and all other leather goods are allowed under this policy.
3. The exports of finished leather of all types are allowed with an export duty of 5% (in Budget - 95 this duty has been removed and this 5% is to be charged as contribution to leather development fund).
4. Imports of Raw hides/skins, semi processed and finished leather are allowed freely without any duty.
5. Imports of Capital goods are liberally allowed at concessional

- import duty tariff of 25%. In case, an importer under takes generating foreign exchange equivalent to four times the cif value of the imported capital goods by exports within 5 years, capital goods import is allowed at a normal import tariff of 15%.
6. Imports of chemicals, components, consumables etc. for leather footwear and other leather goods, materials for making components are allowed liberally at concessional import tariff.
 7. A factory could be custom bonded. In such a factory, all materials are allowed to be imported duty free, under the condition that all imported products must be sent out of the country in the export product and a custom official is permanently posted in the factory at the cost of the factory.
 8. Imports of second hand machinery is allowed if the age of the machine is less than 7 years. If more than 7 years import are allowed if satisfactory justification is provided to Director General of International Trade.
 9. The policy liberally allowed imports of technology and technicians.

FOREIGN INVESTMENT POLICY

The present foreign investment policy allows a foreign investment upto 51% for leather footwear garments and leather goods. However, a licence is required to be obtained from the Ministry of Industry. In case of Capital goods for leather, footwear and other related industries, chemicals, components and material for making components, no licence is required and an automatic approval is given by the Controller, Foreign Investment & Technology Transfer. The policy also allows foreign export/trading companies to open branches in India or invest in trading companies in India upto 51%.

CREDIT POLICY

The important aspects of the policy are;

1. Pre-shipment credit is provided to exporters for 180 days at preferential rate of interest. The rate is increased beyond 180 days but upto 270 days.
2. Post shipment credit is provided to exports for 90 days at preferential rate of interest.
3. Indian rupee is fully convertible on trade accounts. Accordingly market forces determine the rate of exchange on trade account.
4. Pre-shipment credit and post shipment credits are available to exporters in foreign currency also.

EXPORT PROCESSING ZONES

Export processing zones are enclaves separated from Domestic Tariff Area (DTA), where export production is organised on an internationally competitive basis with requisite infrastructure and duty free imports. These zones are located at Kandla (Gujarat), Santacruz, Bombay (Maharashtra), NOIDA (U.P.), Madras (Tamil Nadu), Cochin (Kerala) and Falta (West Bengal).

100 PERCENT EXPORT ORIENTED UNITS SCHEME (EOU)

The 100% Export oriented unit scheme envisages an industrial unit offering for export, its entire production, excluding rejects or items otherwise specifically permitted to be supplied to the Domestic Tariff Area (DTA).

Industrial units approved by the board set up for this purpose will alone be eligible for import duty without payment of customs duty, capital goods(whether new or second hand), office equipment, prototype and technical samples, generating sets, raw materials, components, consumables, intermediates, packing material, material

handling equipment like fork lifts and spares under Open General Licence. Items banned for import in the DTA, however are not allowed to be imported.

Incentives with regard to tax holiday on foreign investments are similar to those for EPZ units.

The Government has declared the Leather Industry as Major Thrust Area. Accordingly, it has sponsored following programmes to upgrade the industry.

NATIONAL LEATHER DEVELOPMENT PROGRAMME

The National Leather Development Programme (NLDP) assisted by United Nations Development Programme commenced in April 1992 under ministry of industry. UNDP has contributed US \$ 15 million with Government of India contributing about 10 million US dollars. The programme, designed in a time frame of 4 years has the following objectives -

- To strengthen the industry in the area of technical education and training
- To provide research and development base for the industry
- To catalyse export enhancement
- Effluent control for tanneries
- Coordination

LEATHER BLITZ

The Council for Leather Exports (CLE), a government body engaged in helping Indian leather manufacturers in exports, launched Leather Blitz, USA during 1994. the main objectives of this campaign in US market is image building and an organised publicity of Indian leather products. The programme, partly funded by National Leather

Development programme, is being carried out as per marketing strategy recommended by Mckinsey & Co. Fifteen firms in the shoe sector, 10 in leather garments and 9 in the leather accessories sectors are also participating in this campaign. The inputs such as services of the consultant, designers and the media advertisement budget comes from NLDP and other expenses like participation in trade show etc. are funded by the participants. The first phase of the campaign has been successful in raising awareness of the American buyers and wholesaler community. It is evident from the fact that large number of American Companies such as Crown Shoes, Wilsons, G III, Liz Claiborne, etc. have shown their interest in greater measures to source leather products from India.

The second phase of the leather blitz is to concentrate on Germany, the second largest importer of leather products. More than 45 Indian leather manufacturers have already opted to join the second phase of campaign.

LEATHER TECHNOLOGY MISSION

Government has recently launched the Leather Technology Mission Mode Project for sustainable development with the Council of Scientific & Industrial research (CSIR). the project has been formulated with a focus on fostering and enhancing the traditional and new skills of workers and artisans engaged in the leather sector, especially the small and unorganised sector and promoting their viable links with the organised sector. Thus the mission mode project involves a grass root approach of technology to correct local deficiencies and to strengthen the ability of the cottage, rural and small scale sectors to cope with technological changes and integrate efficiently in the overall development of the industry. The programme

has the following objectives:

- To augment the availability of quality hides and skins.
- To demonstrate the use of technology as a grid for balanced development of the leather sector.
- To provide extension services to rural and small industry in the adoption of cleaner technologies and upgradation techniques.
- To provide special awareness of quality and standardization in the wider leather sector.
- To demonstrate harmonious blending of traditional and new skills through innovative training and pilot programmes.
- To implement and assess technology delivery systems most suited for the Indian leather industry.
- To study and identify the most suitable organizational structure(s) to integrate the development of rural, semi-urban and urban sectors in leather.
- To catalyse the enhancement of the share of Indian Leather products in global trade to 10 per cent.

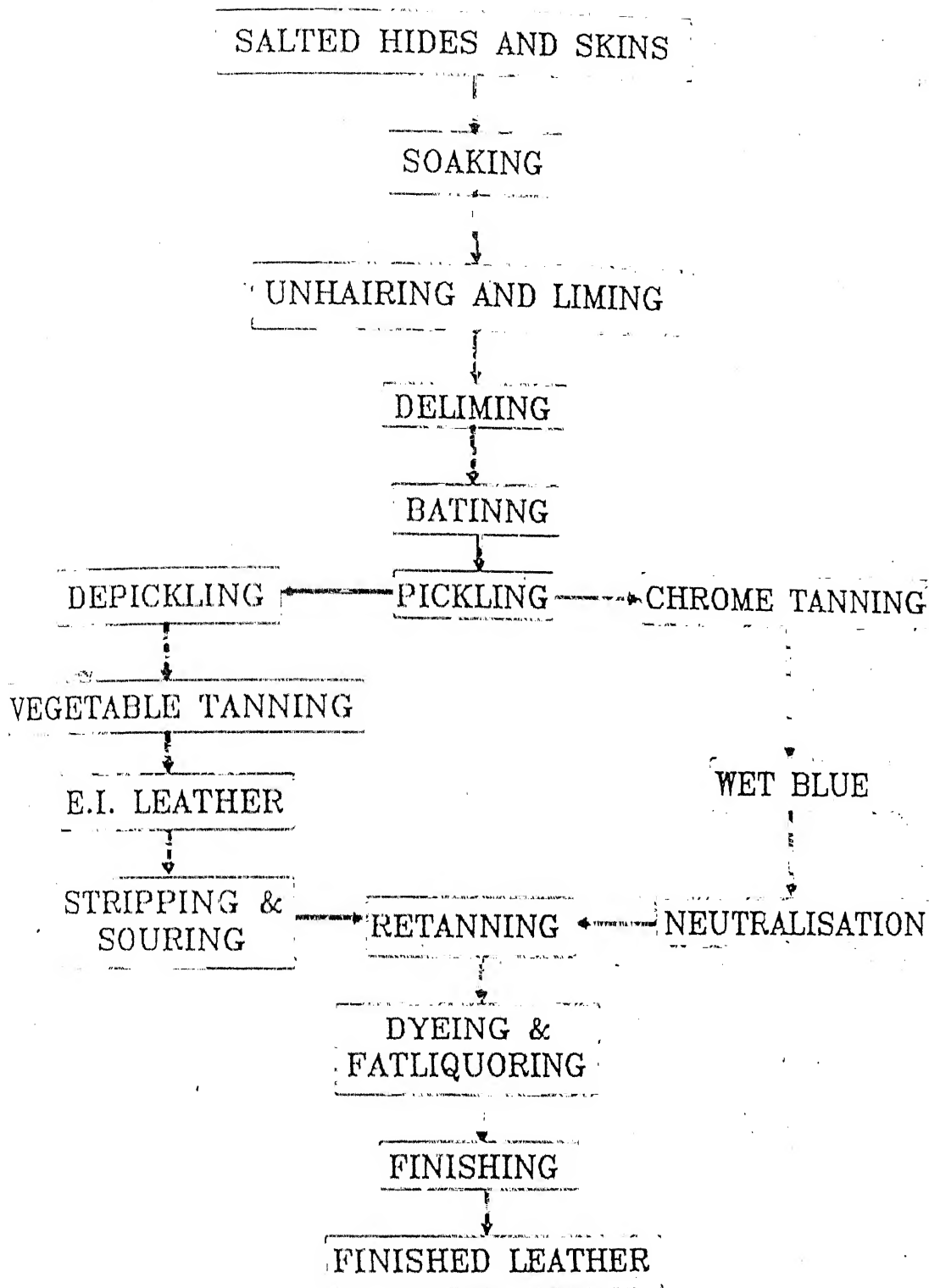
The total budget allocated for the mission project is Rs. 22 crores with government contributing Rs. 12 cr. The remaining fund is to come from the industry. The break-up of the budget is as follows:

<u>Activity</u>	Total Budget (Rs. <u>in</u> Cr.)
1. Technology Extension	10.5
2. Plant/Equipment Engineering	4.67
3. Human Resource Development	3.33
4. Information & Organisation	1.33
5. Developmental/programme implementation	2.17
Total:	Rs. 22 crores

LEATHER INDUSTRY DEVELOPMENT FUND

The budget-95 has removed the export duty on finished leather. Instead, this amount is to be collected as contribution towards the development of leather industry. This fund will be administered by a committee comprising of representatives from the leather industry and will be headed by the Chairman, Council for Leather Exports. the fund will be utilized to address the major issues concerning the tanning industry, viz.

1. Effluent Treatment
2. International demand for eco-lable leather
3. Modernisation of existing tanneries.



Flow Chart For Leather Processing

QUESTIONS TO OBTAIN RESPONDENTS PROFILE.

1. Year of establishment
2. Reason for entering into this business
3. Number of employees
 - a. Managers & executives
 - b. Supervisors
 - c. Workers-skilled Unskilled

4. Product Range

5. Installed capacity & production

Year	Installed Capacity	Production
1989-90		
1990-91		
1991-92		
1992-93		
1993-94		

6. Financial Status

a. Turnover/Export

Year	Turnover	% Export	Profit/Loss	Imports(if any)
1989-90				
1990-91				
1991-92				
1992-93				
1993-94				

b. Inventory (Quantity & Value)

- (i) Finished goods
- (ii) Raw material
- (iii) Spares

c. Investments

- (i) Plant & machinery
- (ii) Working cap.
- (iii) Total investment

- (i). Fixed Investments
- (ii). Working capital

7. Technology & Facilities:

a. Major plant & eqpt Prise (in Rs.) Average age of machines

Source
Indian
Imported

- b. Collaboration,if any
- c. Testing facilities,if any

8. Whether any modernisation done in past ? If yes, then -

Year	Facilities added or modernised	Investment made	Benefits derived
------	-----------------------------------	--------------------	------------------

9. Whether any modernisation needed in existing facilities ? (Details)

10. About suppliers

<u>Raw materials</u>	<u>Source</u>	<u>Difficulties faced</u>
a.Raw hides & skins		
b.Chemicals		
c.Components		
d.Finished leather		
e. Others		

11. Do you have competitors in the market for your product?

12. What do you do remain competitive in the market ?

13. How do you evaluate your product with competitors ?

14. What is the future plan of your company ?

TANNING INDUSTRY

1. Comment on the positive and negative aspects of licensing policy ,as it influences your company's future plans,considering-
Modernisation/expansion of existing unit
Joint ventures etc.

2. If licensing policy is removed or the limit on investment on Plant & M/c is raised significantly, what changes, you think will take place?
3. What changes can be made in existing licensing policy ?
4. Problems faced (if any) relating availability of capital goods & spares.
5. Impact of Industrial policy and export-import policy on availability of
 - a. Capital goods and spares
 - b. Chemicals
 - c. Components (in case of footwear industry)(Comment on present status considering-Quality; Price; Delivery time; Imports and indigenisation)
6. Availability of technological support services in India (comments on existing status & problems faced due to this).
7. How does the current industrial policy influence indigenisation of these supporting industries ?
8. There is a lot of pressure from leather goods manufacturers to put ban /restriction on export of finished leather .If such a decision is taken ,what changes ,do you expect ?
9. Justification for ban/restriction on export of finished leather (FL).(State +ve & -ve aspects).
10. Has your unit ever tried to import machines ?(if yes, what problems were encountered in this process).
11. As per import policy for import of second hand machines, the age of machines should not be more than 7 years. (Comments).
12. Does your unit import any quantity of raw hides or semi finished leather? (If yes - state reasons)
13. Effect of duty free import of finished leather.(comments)
14. Is there any significant change in ind. as the technology transfer etc are liberally available under present import policy?
15. What do you think, was the motto of the government in removing the export duty for finished leather?

17. What changes can be made in existing policy ?

FOOTWEAR INDUSTRY

1. How does licensing policy in case of certain components (e.g. PU soles, moulded soles, heels etc.) effect your business in terms of :
 - a. Quality
 - b. Availability of components of standard sizes.
 - c. Varieties of components in line with latest fashion.
 - d. Cost
2. There is a proposal to subdivide the footwear ind. into two segments (Manmade footwear & Machinemade footwear) and dereserve the 2nd segment completely. (Comments).
3. Why there is a pressure from Footwear Industry to remove licensing policy (comments, considering the following facts)
 - a. Present global scenario
 - b. Incentives to EOUs
4. What is the justification for reserving certain components for S.S.I.s? (Components are needed by org. and unorg. sector both).

FOOTWEAR & TANNING INDUSTRY

1. What is the import policy regarding "custom bonded factory"?
2. What problems you face due to import of components & machines?
3. Is your unit trying for any joint venture?
4. Comments on existing excise duty structure & various procedures.
5. Comments on:
 - a. Preshipment/postshipment packing credit.
 - b. Cost of capital in India.
6. Comments on :
 - a. Physical infrastructure
 - Power
 - Transportation

- b. Institutional infrastructure
 - (i). Frequency of interaction with institutes
 - (ii). Any services availed from these institutes
 - (iii). Role of these institutes
 - (iv). Role of other institutions (CLE, Financial & other govt. bodies)
- c. Availability of manpower.
- d. Suggestions on these factors

POLLUTION CONTROL POLICY

1. What was the initial reaction to the government decision of putting strict pollution control norms ?
2. What problems did the industry face due to various actions taken by the government in order to implement these norms ?
3. How the issue was finally resolved?
4. What was the role played by industry leaders (big tanners) ?
5. What was the role played by various institutions ?
6. What was the criteria applied to fix the contribution from each unit ?
7. What was the role played by tanners association ?
8. What was the role played by the industry in deciding about the technology to be used for Secondary Treatment Plant (S.T.P) ?
9. Are you satisfied with the way govt tackled the issue ? (comments)
10. Comments on the cost of S.T.P. .
11. Comments on the technology chosen for S.T.P..
12. What is the cost of setting and operating Primary Treatment Plant (P.T.P) ?
13. Problems in running a P.T.P.
14. How has your business been effected due to increase in expences ?

APPENDIX D

Project Profile For Tanning and Footwear Industry

Type of Unit	Installed Capacity	Project Cost (Rs. in Lakhs)	Raw Material
Leather Tannery	4.8 lakhs sqm/annum	350	Wet blue leather
Complete Leather Shoe	4.5 lakhs pair/annum	250	Finished leather, soles etc.
Leather Shoe Uppers	6 lakhs pair/annum	150	Finished leather, Lining leather, eyelets etc.

Source : PICUP, Lucknow(U.P., India).

Value Addition Growth in Percentage

Stages	Hides	Skins
Raw	100	100
Wet Blue	122	153
Crust / Ready to Finish	184	218
Finished Lather	236	296
Footwear/Leather Goods	600	600

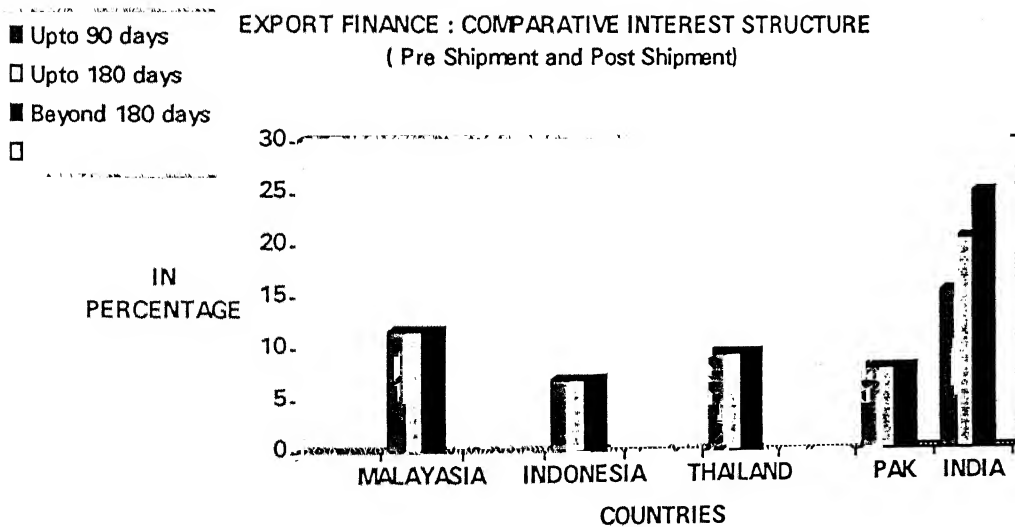
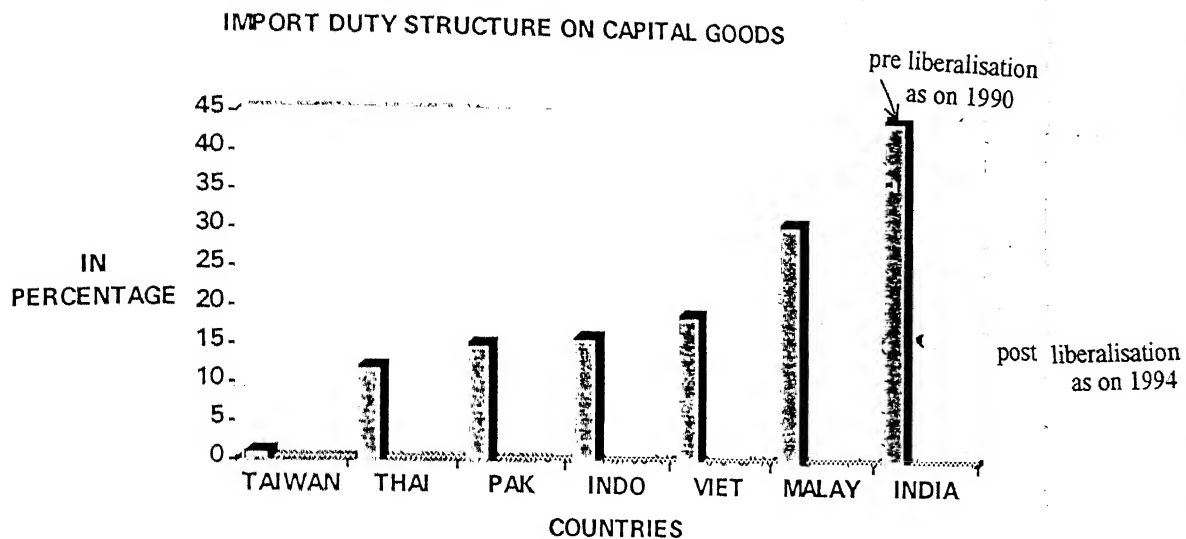
Source : UNCTAD Secretarial Report 1993

Value Addition Growth in Percentage (In Indian Conditions)

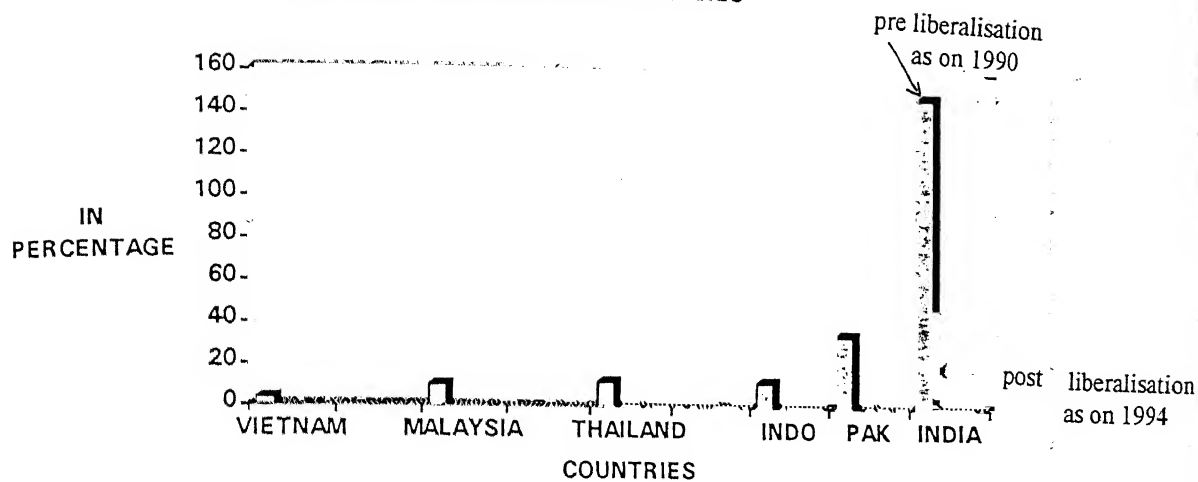
Stages	Hides	Skins
Raw	100	100
Wet Blue	159	150
Finished Lather	252	237
Leather Goods	600	600

Source : CLRI 1994

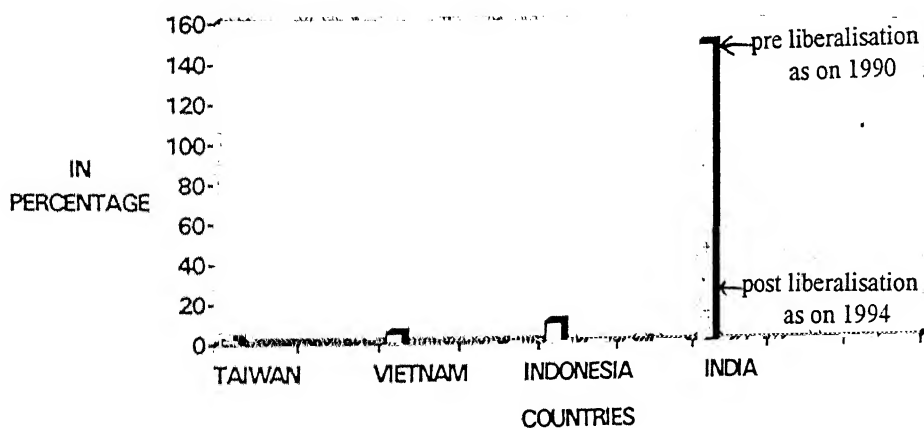
APPENDIX E



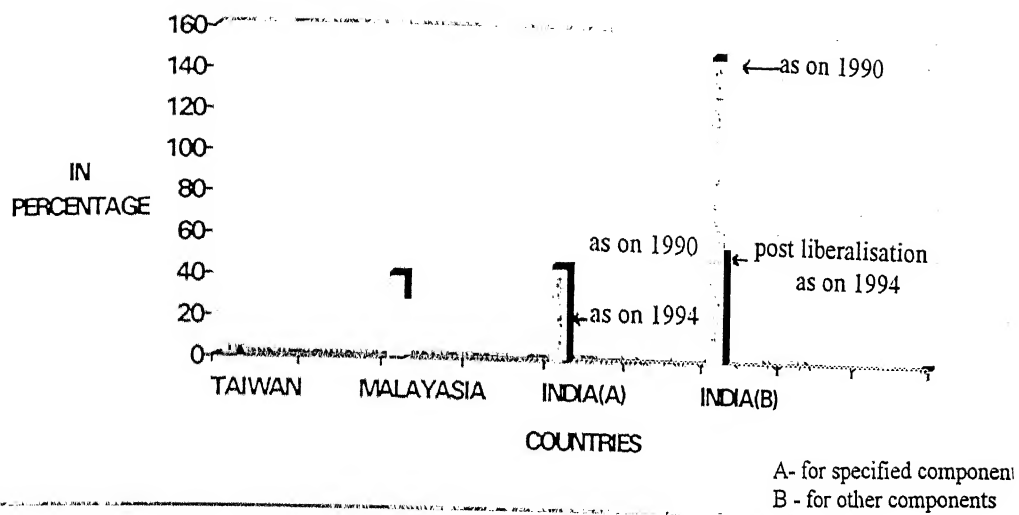
IMPORT DUTY STRUCTURE ON SPARES



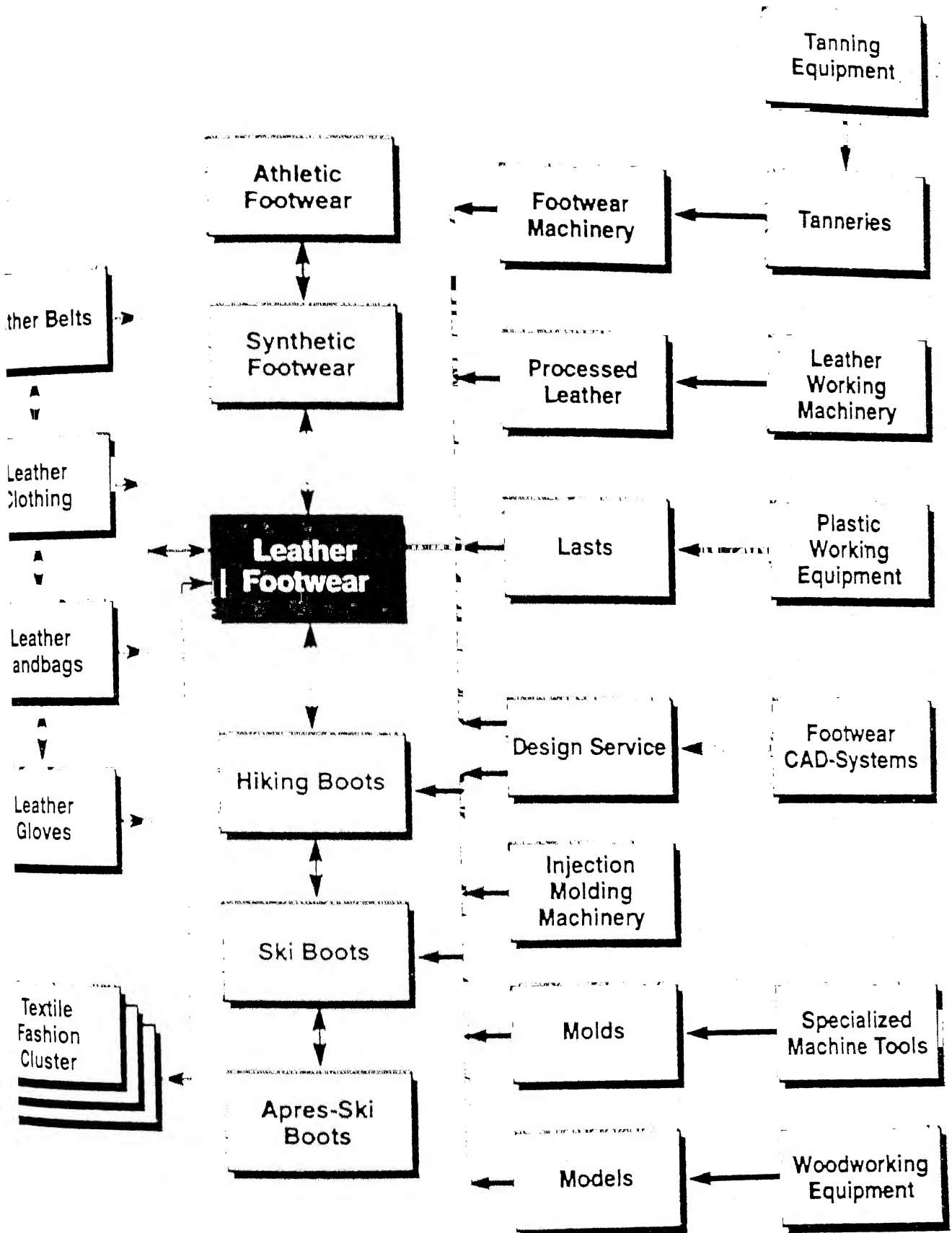
IMPORT DUTY STRUCTURE ON RAW MATERIALS FOR COMPONENTS



IMPORT DUTY STRUCTURE ON COMPONENTS



THE ITALIAN FOOTWEAR CLUSTER



APPENDIX G

Environmental Legislation and Pollution Control in Tanning Industry

The protection of environment has assumed great significance in recent years. Awareness for upkeep of environmental qualities has been gaining momentum since Stockholm conference on human environment held on 5th June '72. As a follow-up of the Stockholm conference, the government of India has enacted various legislation for control of pollution of water, air and environment and also notified the hazardous waste management rules under the instruction of government of India. The ministry of environment and forest have promulgated several legislation to protect the environment from pollution caused by industries and other man made activities. They included Water (prevention and control of pollution) act 1974, Air (prevention and control of pollution) act 1981 and Environmental Protection Act 1986. The acts, rules and guidelines are being amended from time to time considering the emergence of issues and urgency encompassing the technologies directly related to controlling pollution at the source and end of the pipe popular as top to bottom approach.

Tanneries are categories as belonging to red category of industries responsible for causing intensive pollution to environment. A good deal of chemicals are used in tanneries. They are by and large water soluble, air dispersive and capable of contaminating and polluting air, water, soil, etc.

Characteristics of Raw combined tanneries effluent

Parameters	Concentration
pH	7.5-8.5
Alkalinity as CaCO_3	620-800
Chlorides as Cl^-	1600-4600
Sulphates as SO_4^{+}	1000-2500
C.O.D.	1500-5500
B.O.D.(5 days at 20° C)	750-3000
Suspended Solids	1250-2200
Tannin	100-200
Chromium Total	70-200

All values except pH are expressed in mg/L.

Bureau of Indian Standard Tolerance Limits for Tannery Effluents

(BIS :2490 - Part 3 - 1985)

Important Characteristics Tolerance Limits for Industrial Effluents Discharged

Important Characteristics	Into Inland Surface Waters	Into Public Sewers	Onland for Irrigation
Colour and Odour	Absent	--	Absent
pH	6.0 to 9.0	6.0 to 9.0	6.0 to 9.0
Suspended Solids	100	600	200
BOD, 5 days 20° C	30	350	100
COD	250	--	--
Total Dissolved Solids	2100	2100	2100
Chlorides	1000	1000	600
Total Chromium	2	2	2
Hexavalent Chromium	0.1	0.1	0.1
Sulphides	2	2	2
Boron	2	2	2
Oil & Grease	10	20	10

Notes : All values except pH are expressed in mg/l.

FOOTWEAR INDUSTRY

Firm Name	Market Share
Bata India Ltd.	26%
MidEast India Ltd.	3.1%
Carona Ltd.	2.8%
Bengal WaterProof Ltd.	0.5%
Others	67.6%

Source : CMIE Feb '95

FOOTWEAR ACCESSORIES INDUSTRY

Firm Name	Market Share
Wipro Ltd.	45.5%
KRM International Ltd.	35.6%
Namaste Exports Ltd.	13.4%
Avanti Leathers Ltd.	2.3%
NSL Ltd.	1.7%
Others	1.5%

Source : CMIE Feb '95

LEATHER AND LEATHER PRODUCTS INDUSTRY

Firm Name	Market Share
Tata Exports Ltd.	45.5%
MidEast India Ltd.	12.3%
Namaste Exports Ltd.	28.8%
Mulchand Exports Ltd.	5.0%
Cosmos Leather Exports Ltd.	3.6%
Others	5.8%

Source : CMIE Feb '95

REFERENCES

1. Ali Vazid, " History of Government Leather Institute", Annual Magazine, Government Leather Institute, Pg. 3-6, 1991.
2. Amudeswari Srinivasan, Thyagarajan " Indian Leather 2010 ", CLRI Madras, 1994.
3. "Annual Report", Council for Financial Corporation, 1992 - 93.
4. "Annual Report", Council for Leather Exports, 1987 - 88.
5. Asif, " Changing Trends in US Footwear Industry", Leather Markets, pg. 161 - 162, Jan 1995.
6. Basu B.C., " Status Paper of Leather Industry in UP", Charm Vigyan, Successive Issues, Nov. 1977 to May 1980.
7. Chopra K.S, "Business Policy for Indian Industries", Times Research Foundation, N.Delhi, Pg. 24, 1985.
8. Desai Dolat, Handbook & Guide to Exports of Leather & Leather Products, 1988, Prosperity Publication Bombay, 1980.
9. Dess G., Davis Peters, " Porter's (1980) Generic Strategies as Determinants of Strategic Group Membership & Organisational Performance", Academy of Management Journal, Vol - 27, Pg. 467 - 488, 1984.
10. Haltan Cooper Schendel, "A Strategic Model of U.S Brewing Industry : 1952 - 1971", Academy of Management Journal, Pg. 592 - 610, 1978.
11. Kar Shampa, " A Slow Tread", Business India, Pg. 152, Nov - 22, 1993.
12. Marriappan M, "Environmental Implications & Tanning Industries", CLRI, Madras, 1992.
13. Michael E. Porter, Competitive Advantage of Nations, The MacMillan Press Ltd., 1992.
14. Michael E. Porter, Competitive Strategy, Free Press, New York, 1980.

15. MITCON, "Technology Evaluation & Norms Study In Leather Tanneries", March 1991.
16. Miller Danny, "Relating Porter's Business Strategies to Environment & Structure : Analysis & Performance Implications", Academy of Management Journal. Pg. 28 - 308, 1988.
17. Murthy, "Report on Indian Leather Industry ", Ministry of Industry, 1992.
18. Nachmias & Nachmias D., Research Methods In Social Sciences, Edward Arnold, Austrial 1985.
19. Roy Sudipto, "Polishing Up its Shoes Strategy", The Economic Times, Jan 19, 1994.
20. Sarkar, Introduction : Theory & Practice of Leather Manufacture, Pg. (i) - (vi), 1978.
21. Sinha Saurabh & Sanjay, " Leather Exports : An Illusory Boom", Economic & Political Weekly, Pg. M111 - M116, Aug. 31, 1991.
22. Singh M.K, " History Indian Shoe Industry", Annual Magazine, Government Leather Institute, Pg. 11 - 14, 1991.
23. "Special Issue on Leather", Industrial Economist, Jan 1992.
24. Thomas Philip, "External Conditions In Corporate Planning ", Economic & Political Weekly, 26th Aug., 1992.
25. Van Paneersel, "Coming of Age", Business India, Pg. 93 - 95, Aug 21, 1994.
26. Yin Robert K., Case Study Research, Design & Methods, Sage Publications, Pg. 13 - 26, 1984.